Woman CPA Volume 37, Number 2, April 1975

American Woman's Society of Certified Public Accountants

American Society of Women Accountants

The Woman CPA

APRIL 1975 VOLUME 37, NUMBER 2

The Singer Client Accounting System.

Created by professional accountants for professional accountants.

You get a system that does everything you want a client accounting system to do—without having to hire data processing people to do it.

You get a system that displays all entries on a TV-like screen at your desk, so you can make all journal entries, and totally control all client procedures from original input through trial balance, general ledgers, financial statements, supporting schedules, and payroll reporting.

You get a system that does more than maintain general ledgers. It also includes a comprehensive depreciation system, an amortization schedule ability, and a professional time-reporting program library.

You get a system that uses no cumbersome paper tape, punch cards, or cassettes. All programs and client files are on-line all the time.

You get a system that maintains confidentiality. All the data remains in your office, all the time.

You get a system that puts the lid on soaring clerical and bookkeeping costs. Because it eliminates endless handling and clerical routines.

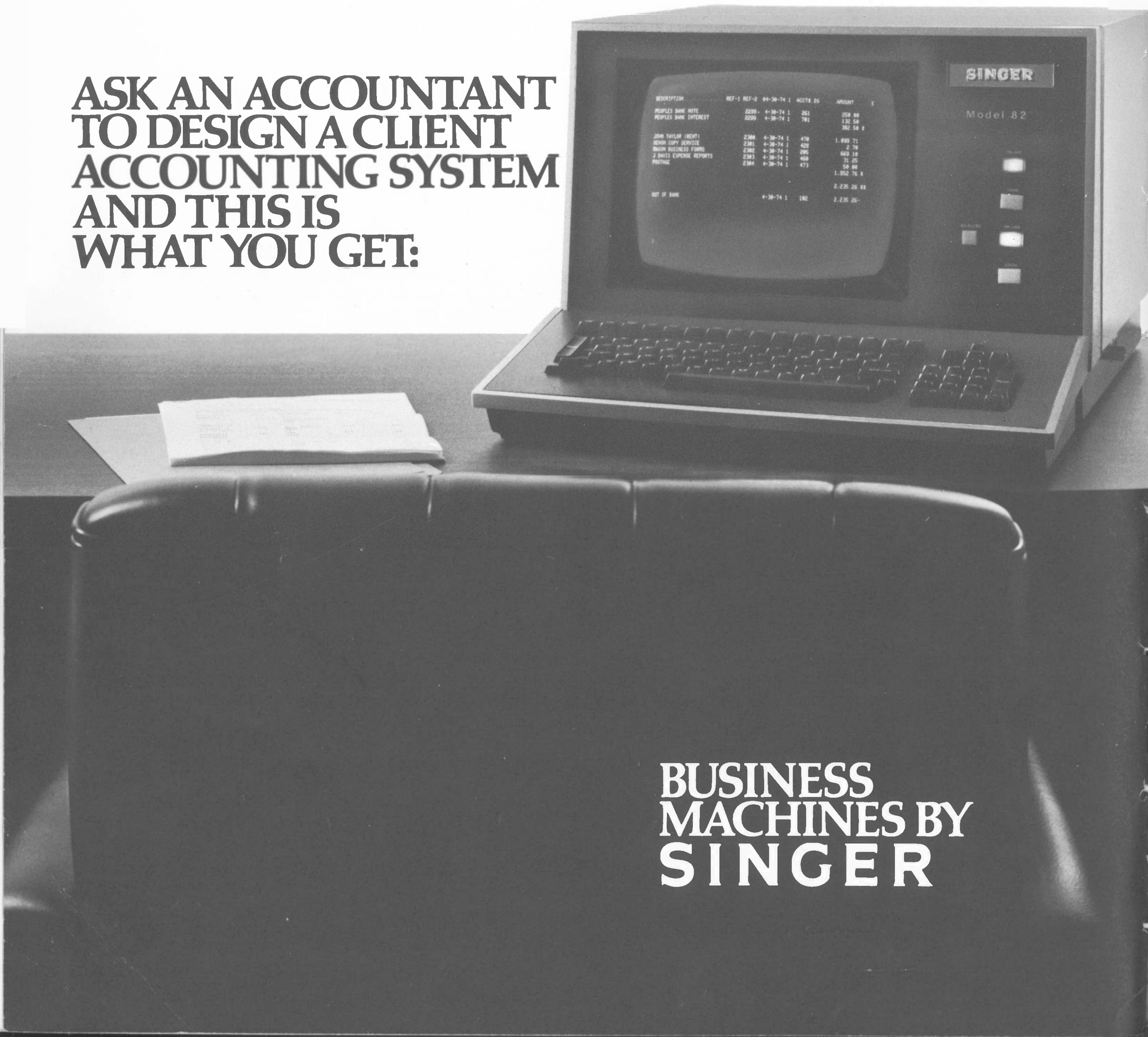
Best of all, you get a system that is ready for immediate delivery: up and running in 30 days.

You get this and a lot, lot more.

But isn't that always the case when you call in a professional accountant?

For the complete story on the Singer Client Accounting data processing system—and reports on how accounting firms across the country are now profiting from it—call your local Singer Business Machines representative. Or write: The Singer Company, Business Machines Division, 30 Rockefeller Plaza, N.Y., N.Y. 10020.

ASK AN ACCOUNTANT TO DESIGN A CLIENT ACCOUNTING SYSTEM AND THIS IS WHAT YOU GET:



The Woman CPA

April 1975 Volume 37, No. 2

CONTENTS

MAJOR ARTICLES Page

DEPARTMENTS

Cover photo courtesy of Coopers & Lybrand

THE WOMAN CPA, published quarterly and copyrighted, 1975, by the American Woman's Society of Certified Public Accountants and the American Society of Women Accountants, 327 South LaSalle St., Chicago, Ill. 60604. Subscription rates per year — members $1.50; students and libraries, $2.25; all others, $3.00; outside the United States, 50c higher; single copies, $1.00. *Second-class postage paid at Chicago.* Change of address notices must be sent to Business Manager giving four weeks' notice and both old and new addresses, including zip code numbers.

Material presented in THE WOMAN CPA is believed to be reliably correct but represents opinions of editors or contributors for which liability is not assumed.

Articles of general accounting interest, not exceeding 5,000 words, should be addressed to the Associate Editor. Manuscripts related to areas defined by special columns, containing from 600 to 1,800 words, should be sent to the appropriate department editor. Letters to the Editor should be sent directly to the Editor. Requests for information regarding advertisements should be addressed to the Advertising Sales Manager.

All manuscripts must include a word count and the author's permission to publish. Material should be based on fact, rather than on opinion, and presented in technical writing style. Submission of material in duplicate will facilitate editorial board action.

NATIONAL HEADQUARTERS
American Society of Women Accountants
327 South LaSalle Street
Chicago, Illinois 60604

American Woman's Society of Certified Public Accountants
P.O. Box 389
Marysville, Ohio 43040

Planning and Budgeting: Past, Present, and Future

Myra A. Swick, CPA
Glen Ellyn, Illinois

The author traces the historical development of planning and budgeting with particular emphasis on program budgeting by municipalities. The article is adapted from a speech given to members of the American Society of Women Accountants in Oakbrook, Illinois.

Myra A. Swick, CPA, is on the staff of Otto Hilsman & Co., Ltd., CPAs. Her previous experience includes several years in public accounting and industry.

Ms. Swick graduated cum laude from Loyola University in Chicago and holds a CPA Certificate from the State of Illinois. She is a member of the AICPA, the NAA, and the Illinois Society of CPAs. She is presently serving as President of the Chicago Chapter of ASWA and as a National Vice President of AWSCPA. She is a frequent speaker at ASWA meetings and the author of several articles previously published in THE WOMAN CPA.

To budget, according to the dictionary, is "to plan in detail, schedule."[1] In this very simple sense, it can be said that the first budgeting venture took place about fifteen thousand years ago.[2] People, for all the prior time of their existence, had lived off the land. If game was plentiful and the hunters were successful, times were good. If grain was available, they ate. If neither game nor grain appeared before them, they starved. Then people realized that from the same grain they ate they could grow more grain if they planted what they did not need at the moment and they could control their food supply.

This was the first simple budgeting, or planning (or planting) for the future. People saw that by planning their present resources, they could place in store a better future. This is the substance of a budget even in today's sophisticated systems. Hence, it is not the substance of budgets and planning which has undergone transformations, but rather the theory and methodology.

The Traditional School

In the modern history of business, there was a strong development of scientific management theories. The traditional management theorist advocated effectiveness and efficiency in business above all else. This approach naturally made the budget an important tool.[3] For the budget, as it was then defined, was a formal plan for coordinating operations, used for measurement and control of the productive process. It is this view that most people have been educated in.

There are different types of budgets; e.g., fixed or flexible. A flexible budget can be a formula budget or a step budget.

Fixed budgets are "one-column" plans based on a certain set of assumptions with no variation allowed for in those assumptions. Variable budgets are actually a series of fixed budgets based on differing assumptions, such as varying sales volumes. The formula budget allows development of a complete budget based on any actual value (e.g., actual sales) to which the remainder of the budget is related by formulas. The step budget is actually a series of pre-determined fixed budgets for different levels or ranges of activity.

Budgets can be applied to different areas — by company or division or department. And they even have different uses. They can be capital expenditure budgets or operating budgets and they can be used for forecasting or control. The control can be of costs or of revenues.

There are also certain recognized procedures in budgeting. For example, in capital budgeting the popular format is the following:

- Searching — for projects
- Screening — for unwanted projects
- Coordinating — The remaining possibilities must fit into the company's goals.
- Formulating — Exactly what does the project involve?
- Evaluating — Which (of the remaining projects) is best?

Budgeting — Putting the figures on paper (in detail).
Requesting authority for the expenditure
Process controlling — During the project, how is it progressing as compared to expectations, i.e., the budget?
Follow-up or post-completion audit — What went right and what went wrong and what should be changed next time?

In establishing operating budgets some of these steps are eliminated or combined, but the important ones remain, if under different names:

Establishing objectives — This is not necessarily a profit figure.
Formalizing — Again, getting the figures on paper.
Measuring — Making comparisons during the period under control.
Correcting — What is right, wrong, or what will be changed next time.

This is all very basic to budgeting and is presented as a very brief refresher in the subject. Now let us look at the transformations that have taken place.

One thing that is changing is terminology. Today there is a difference between budgeting and planning. Budgeting is normally used in the context of the short-range detailed statement. Of course, exactly how detailed depends on the level of the company being dealt with. But down on the bottom of that stack of budgets there will usually be a very detailed departmental budget. Planning has taken on the connotation of the long-range budget; the less detailed, more flexible "where do we want to be in five years" type of approach.

The Behavioral School

In the early 1950's the behavioral (or human relations) school of management theory came to the forefront. The behavioralists viewed the organization as a social system and saw the entity as the individual actions of the members. In this theory the responsibility of management was to choose the resource arrangements that would evoke a system of cooperative relationships. Goals could be obtained only when an internal social equilibrium was reached, unproductive conflict was eliminated and cooperation reigned supreme.[4] Obviously, this was in direct conflict with the traditionalists' work-orientated view.

The budgetary process naturally was foreign to this school since it failed to consider personalities and imposed a thing-oriented restraint on human activity. Partly because of the incompleteness of its "body of knowledge" and partly because of a short-sightedness in its perspective, this school died within its own decade.

The Quantitative School

But since this is the scientific approach to management — and scientists know that nature abhors a vacuum — it is easy to see that another school of thought would rise quickly in its place. And that was the quantitative school.

The speed of the computer set the stage for management theorists influenced strongly by mathematics, statistics and econometrics. And therewith the budget became the primary tool of management. Attention is directed toward selecting a strategy that will permit the firm to achieve its goals within an industry characterized by competition. The manager identifies courses of action, considers the probabilities and develops the strategy. Management has become "gamesmanship."[5]

Financial Models

Among the innovations is the financial model — or a representation of a company based on a set of assumed conditions. The model is used to perform computations and make projections. It transfers the routine clerical aspects of planning from the planner to the computer. This frees the planner to concentrate on the more creative aspects of planning. The use of a model makes it possible, even in long-range planning, to:

a) Recognize significant interrelationships;
b) Consider all reasonable alternatives; and
c) Determine the full financial effect of each alternative; —all with the speed of a computer.

This has also led to the "what if" approach to budgeting. The annual plan is satisfactory in terms of the company's long-range outlook, but what can be done to improve it? What if a second shift is added? What if there is a wage rate increase? These questions are much narrower in scope than those suggested in long-range or less detailed budgeting or planning. But with the sophistication of the computer model the implications can be evaluated.

PPBS

This period has also seen the development of PPBS — the planning, programming, and budgeting system.

Already, the theoreticians are looking ahead to the next school while many accountants are still learning about PPBS. But it is a commonly held belief by those familiar with this system that the real day of PPBS is yet to come.

But what is it really? And why are the management people getting excited about it? Strangely, this relatively new theory has found a home in a highly beaurocratic area — that of municipal finance. The little town (or for that matter the big city) normally so slow to change has adopted PPBS. Since municipal budgets affect everybody and since the financial plight of cities and towns is making the headlines every day, it makes sense to take a closer look at the working process of planning, programming and budgeting systems.

Each department in a local government exists either to produce a service that meets a community need or to assist other departments to provide that service. For example, the water department supplies water for a town's residents. The controller's office, by producing the monthly bills, supports this function.

Program budgeting operates on the premise that, because departments operate to achieve certain purposes, by clearly establishing these purposes an operating unit can improve both the use of resources and a program's effectiveness. At the same time, it will provide the community with a clearer understanding of the departmental program and the financial resources needed for its support.

The program budgeting process begins by requiring a department to identify each program or activity that it conducts and the community need that it serves. Typically, this process may reveal a program without a purpose, an area of need without a program, and areas served by several programs. Next, the department, assisted by community feedback, develops budget guidelines which establish areas of priority in the coming year. They will also highlight any important external assumptions or constraints. The department then examines its programs in terms of how well they are achieving the purposes while remaining within the specified guidelines. If improvements are indicated, an assessment of the benefits to the community from making these changes, as well as short and long-range cost implications, is made.

Finally an estimate of the resources needed to operate each program over the next several years is developed. The department then compiles these data into a program budget format which includes the purpose of each program, a description of the services performed, the benefits and costs of any program changes requested, and the multiyear costs.

From this stage forward, the budget process itself remains unchanged, but the content has clearly changed. Boards and budget review committees can concentrate their efforts on evaluating the total benefit of a department's services versus the cost required to provide these services. Moreover, if faced with a requirement to contain costs, the departments are able to assess for a committee the impact of such an action on the level of services offered.[6]

Of course this is not a "cure-all" that will result in all governmental units running more effectively. Like any other system, the controls still have to be in force. And it won't completely replace the line-item budget either, if only because (for now at least) most state statutes require this method of budgeting. But it does have definite benefits.

First, for the government units that must monitor and review operating departments, program budgeting provides a better understanding of what each department is trying to do. Moreover, because it lays out the purposes, anticipated costs, and outputs of each program within the department, it makes it possible to compare the costs and the benefits of the various activities. Such information facilitates the tasks of choosing priorities, assessing the impact of required budget cuts, and developing overall budget recommendations.

Decision-making is further improved by providing, through the multiyear financial plans, an estimate of the longterm implications of new programs or program changes.

At the operating level, the process redirects administrative attention toward program output and the control and quality of services. Because traditional budget methods emphasize the control of expenditures and the use of inputs, the purposes of activities were easily lost sight of. Finally, the program budgeting process helps managers identify areas where needs are not being met, where services are duplicated, or where services are available but not recognized by the community. Because the departments are required to state their objectives, a basis for departmental accountability is created.

For the citizens, who ultimately bear the cost burden for the services, program budgeting offers a clearer picture of what the tax dollar is buying, and it provides opportunity for the community to express its needs and desires to the various departments prior to and during the budget process. Only too often does the traditional system of budgeting entail simply adding a "reasonable" increase to last year's budget in order to arrive at this year's budget request, thus usually failing to determine in any formal way whether the services are still needed or whether improvements are required.

Those who have worked with PPBS say that they have found only one disadvantage — it is hard work! They also offer three suggestions to those who want to adopt PPBS:

1. Start small with a few departments at a time. Since the line-item budget still has to be prepared (though it is relatively easy to derive from the PPBS figures), the town would find itself preparing two complete budgets. And in that first year of "Does anybody here know what is happening?" the methodology of the new system is bound to suffer. And if that happens, it won't work; and if it doesn't work, it will probably be discarded without being given adequate opportunity to prove itself.

2. Be sure the departments do their own budgeting. Part of the purpose is to make them more aware of the services they are providing as well as to inform the city managers and the citizens as to what the department is actually doing — as opposed to what it thinks it is doing — or as opposed to what it is supposed to be doing!

3. Expect results in the first year. This may seem rather like asking for trouble; but if there are no results, something isn't being done right. Expect programs, outlays and the quality and reasonability of services to be questioned. And expect to make changes in the following year. If the system was perfect now, there would be no need for PPBS.

The Structural School

While practicing accountants are contemplating new approaches to municipal budgeting, what are the theorists doing? They are predicting the demise of the quantitative school and looking forward to the new breed of manager — the structuralist.

The structuralists assume an eclectic posture regarding the role of the administrator. They aim to integrate the previous schools into a coherent body of management theory. They recognize the dilemma between the needs of the entity and those of the individual but, at the same time, they accept the conflict for its contribution to the viability of the entity (and don't try to serve one need to the entire exclusion of the others, as do the traditionalists or the behavioralists).

The structuralists believe that, since the task of the administrator is to build an organization that will have the capacity to respond to the changing environment, the administrator must combine the physical and human resources of a firm into a viable unit capable of reacting to the pressures of change.[7]

Where does the budget fit into this theory? It doesn't (yet), at least not as previously defined. But the plan does.

The financial plan is now a strategic course of action. It is charted by top management and has (preferably) survived a rigorous screening process of computerized simulation models and it maximizes resource allocation. It is not expected to reflect change, but is considered an aggressive charter that forces change.

Though it will probably be some eight to ten years before the main body of structural theory is adopted by management in general, it has a good chance of seeing fulfillment. One reason is the increase in younger managers who have been exposed to it and are now in policy-influencing if not policy-making positions. Another reason is the increased emphasis on continuing education which will certainly bring the theory home to accountants past college age.

The above synopsis of planning and budgeting has shown that the theory and methodology of budgeting have changed, are changing, and will continue to change. In the present economic situation it is especially important that resources be used as effectively and efficiently as possible. Budgeting and planning can help to attain these objectives, and accountants have a very important role to play in this process.

NOTES

[1]*Webster's New World Dictionary of the American Language.* New York: The World Publishing Company, 1970.

[2]P. A. May. "The Budgeting Process." *Management Accounting,* January, 1973.

[3]D. A. Drinkwater. "Management Theory and the Budgeting Process." *Management Accounting,* June, 1973.

[4]Ibid.

[5]Ibid.

[6]H. I. Steinberg and J. D. Carney. "Program Budgeting for Towns and Villages". *Management Controls,* May, 1973.

[7]Drinkwater, *op.cit.*

The Evaluation of Resource Usage in the Not-For-Profit Environment

Dr. Loudell O. Ellis, CPA, CMA
Birmingham, Alabama

The author describes how the concept and procedures of program evaluation can be applied to a non-profit organization, such as a church. The article is adapted from a panel presentation given in April 1974 at the Southeastern Regional meeting of the American Accounting Association.

Dr. Loudell O. Ellis, CPA, CMA, is Associate Professor of Accounting at the University of Alabama at Birmingham. Her previous experience includes public accounting with Dudley, Hopton-Jones, Sims & Freeman and teaching at the University of South Alabama and Louisiana State University in New Orleans.

She has a Ph.D. from the University of Alabama in Tuscaloosa and is a Certified Public Accountant (State of Alabama). She is also one of the first women to obtain a Certificate in Management Accounting. Her many professional memberships include AWSCPA and ASWA.

Dr. Ellis has had articles published in the CPA Journal, *in* Church Administration, *and in* The Woman CPA. *She presently serves as Editor of the Education Department of* The Woman CPA.

Americans are becoming increasingly resource-use conscious, and managers are being called on to account for the effective use of resources, as well as for custodianship over assets. Operational audits in addition to financial audits are recognized as relevant to such an accountability, especially in the public sector where the profit measurement is lacking.

Many accountants are members of not-for-profit organizations and are involved either directly or indirectly with their financial operations. Such accountants increasingly are asked to evaluate the use of resources in accomplishing objectives through programs[1] and other courses of action.

The purpose of this article is to suggest program evaluation (described below) as one approach to the assessment of the use of resources. The church organization is used as an illustration, although concepts presented for churches are not basically different from those applicable to other organizations in the public sector. While operational auditing includes a consideration of effectiveness, efficiency, and economy of operations, program evaluation focuses on effectiveness.

Program Evaluation

Program evaluation is part of the feedback within the management information system. Simply stated, program evaluation is results-oriented. It attempts to determine whether programs are achieving the results for which they were authorized and for which funds were made available. It provides desirable information for decision making and control purposes, i.e., for assessing the status of programs and their relative desirability, detecting departures from plans, keeping current programs headed in the right direction, planning future programs, and establishing priorities in the allocation of resources.

In contrast to other selected not-for-profit organizations (such as governmental agencies), churches do not have the power to force contributions. When pastors find themselves sitting in empty church buildings with no one attending Sunday School and worship services and with no contributions flowing into the church bank account, it would appear the former congregation had evaluated the church's programs as inadequate for its needs. Hopefully, a pastor's information and control system will provide useful feedback on church programs prior to such a widespread, adverse evaluation.

Environment of Church Programs

Several problems arise in evaluating a church program (or many of the programs in the public sector), e.g., in comparing inputs with outputs or in attempting cost-benefit analyses. First, consider outputs. The primary outputs (services) of a church usually are not tangible products or services, but are intangible, fee-free spiritual ministries intended to fulfill a social need. Outputs, therefore, generally are not susceptible to objective valuation or quantification. For example, it is difficult to impute a dollar value for the spiritual revival experienced during the worship service, and the "value" of comfort to the distressed is difficult to measure.

Members' contributions do not necessarily indicate the value of output, since no direct relationship exists between members' contributions and services received. Members may make relatively large contributions, but avail themselves of services to a limited degree; or, they may make relatively small contributions and use services extensively.

Next, consider inputs (operating costs). Inputs also are not necessarily indicative of the value of outputs. In some cases it may take only weeks — but in other cases, years — for various persons to respond to and benefit from church ministries. Additionally, managed or discretionary costs are typical in the church environment making it difficult, if not impossible, to determine the optimum input cost of providing general religious services.

To reduce the amount of subjective value judgements needed to assess the success or failure of particular programs, evaluation normally is based on the degree of accomplishment of stated goals — comparison of what happened with what should have happened. Under such circumstances, program evaluation *appears* to be a relatively simple matter: merely compare the objectives of the program with the degree of accomplishment of those objectives.

But what if the program has not been clearly defined and objectives established? What if objectives are not quantifiable? What if objectives have not been stated, even in narrative form? What if the objectives of the program (or, on a broader basis, of the church itself) are never expected to be fully attained? Such questions are indicative of problems encountered when attempting to evaluate church programs (or many of the programs in the public sector).

Meeting of Poor-Program-Evaluation Church

Consider a meeting of the governing board of Poor-Program-Evaluation Church. The chairperson begins: "The meeting will come to order. We have only one hour before Monday Night Football to approve budget requests for the coming year and to review program status reports supporting such requests." (Program chairpersons are asked to prepare annual reports concerning results of programs for the current year to date, variances from plans, estimated consequences of such variances, and plans for the coming year.)

"The chairperson of Project A requests a 10% increase over last year's budget. He failed to submit a report on goals for his project and results of last year's activities. Oh well, we know the problem everyone is having with inflation; let's approve the request . . . .

"The director of Program B requests $28,000. She supports her request with an evaluation of last year's results and with a description of activities for the coming year. She lists her program objectives and the results desired by accomplishing the objectives. I don't think I'll take time to read this report. She used $25,000 last year; let's give her the same and let her delete the least important activity as she sees it . . . .

"Program C requires $50,000 for next year's activities — $1,000 for literature, $3,000 for new robes, and $46,000 for miscellaneous. Let's cut the $3,000 for new robes to $2,000 . . . .

"Now here's a new project — funds needed to promote A. Person for mayor. This raises a question concerning the church's participation in such an activity. A. Person is a member of our church; let's approve it, even though I'm not sure this is one of the purposes of our church . . . .

"Workers with Program E request an increase over last year's allowance. The committee did not engage in any activities last year. Should we allocate funds to this project? Let's hold them to last year's budgeted amount; maybe they'll do something this year . . . .

"The chairperson of Program F says she wants to encourage participation of members in church training. She'll try sometime during the year to gather ideas and find a way to increase members' involvement. If successful, she'll need a little money; she doesn't say how much. Let's approve $500; it seems like a worthy project . . . .

' Objectives of Program G appear the same as those for Program B. Even though there's an overlap of coverage, I feel we should approve the request. After all, it gives us two chances for success in this area . . . .

"The director of Program H says he can't submit a list of goal accomplishments because he forgot to remind the secretary to collect data each month. Nevertheless, he feels the program was worthwhile. I'm sure he knows what he's talking about . . . .

"One objective of Program I is to secure 100% worship attendance by all members of the church during the coming year. I'm not sure such a goal is realistic, but it sounds good. . . ." (And so the meeting goes until members rush home to watch Monday Night Football.)

Approach to Program Evaluation

As pointed out by Dr. Knighton,[2] it may be desirable to evaluate the outputs of programs at several levels: (1) work accomplished and products produced, (2) benefits accomplished, and (3) impact achieved. Work accomplished and products produced concern the level of work accomplished — activities engaged in, or "what was done." Examples would be the number of persons visited as part of the proclamation program, number of members served in Sunday School, and number of baptisms during the year.

In many cases such statistics are only surrogates for measuring the effectiveness of the programs themselves, i.e., benefits accomplished and impact achieved. Benefits accomplished relate to the extent to which program objectives are attained. (For example, one objective may be to proclaim the gospel to the church community, not merely visit a certain number of residents.) Impact achieved concerns the extent of change in the quality of life of society.

Steps in Evaluation

A first step necessary for program evaluation is identification of the church's overall purpose for existence. Its purpose perhaps may be to improve the quality of life of society (impact achieved) by ministering to the spiritual needs of the community. The church may never be able to evaluate objectively the impact achieved, yet it needs indicators (discussed below) to help assess movement toward the purpose.

After identifying its overall purpose, a church should identify its areas of concern, such as worship, proclamation, education, and ministry, and should define specific purposes for each area. Assume two selected purposes within the education area of concern are: (1) to guide pupils in spiritual growth, and (2) to teach general Christian principles and church policy. Such purposes are timeless intentions, involving personal experiences that ordinarily cannot be directly observed, quantified, or evaluated, although these purposes are somewhat more tangible than the previously mentioned broad purpose of the church (to improve the quality of life of society). Again, indicators are needed to help assess whether activities directed to each area of concern are leading the church toward attainment of its purposes.

Performance indicators normally concern results of activities perceived by the church to be conducive to accomplishing its purposes. For example, it seems reasonable to assume that attendance at Sunday Bible study would promote, though not guarantee, spiritual growth and the learning of Christian principles. Knowing that attendance in worship services is conducive to a worship experience, attendance may be used as an indicator of effectiveness in the area of worship.

In selected cases it may not be appropriate to use only one indicator. In addition to counting the number of persons attending a particular worship service, for example, it may be desirable to accumulate data on those who attend on a regular basis and not just at special occasions such as Easter.

After identifying its areas of concern and purposes, the church normally should establish programs, program organizations, and projects for the conduct of activities. The church should state the long-range objectives and short-range goals for each program (benefits to be accomplished). As noted above, before program evaluation can be undertaken, or — indeed — before the first step is taken in program design, the overall purpose of the church and the purposes within the areas of concern must be determined and clearly stated. The purposes may not be measurable or even completely attainable, yet they should be stated. Such statement focuses attention on legitimate activities and provides a guide for the types of programs needed and the results desired.

At the same time that program objectives are determined, evaluation criteria should be specified for assessing the merits and accomplishments of the programs. Agreement should be reached on the types of indicators to be used to judge satisfactory performance.

Goals — defined as intentions to accomplish a *measurable* quantity and/or quality or results within a specified time period — commonly are stated for each program or project. For example, goals of the education program for a one year period may include:

1. To enlist and secure attendance of a certain percentage of members in regular Sunday Bible study. (100% may be unrealistic.)
2. To enlist a specified percentage of members in daily home Bible study.
3. To provide a definite number of special Bible studies for all members.
4. To conduct a certain number of training classes for potential Bible teachers.

Such goals are realistic and can be attained. Their degree of attainment would indicate work accomplished and could be used to evaluate the program, as well as to provide surrogate measures (indicators) of the movement toward attainment of church purposes.

Assessment of Goals and Objectives

Periodically, judgments are needed to assess whether program objectives and goals are leading the church toward its broadly stated purposes. Questions such as the following should be considered:

1. Can the program accomplish its objectives with its current goals?
2. If it accomplishes its objectives, will it help move the church toward its purpose for existence?
3. Are programs with similar objectives coordinated?
4. Have priorities in the use of resources been established?
5. Were budget requests submitted with a statement of goals and plans for attainment of goals?
6. Have plans been made for collecting data for evaluation purposes?
7. Have deviations from last year's plans been determined and variances explained?

Caution always should be exercised in using statistical growth figures to measure the attainment of objectives. Continual reconsideration of desired achievements must be made where changes in the church's market (i.e., its community and community residents) affect membership, attendance, and offerings. For example, membership in suburban churches located in new and growing communities usually will increase regardless of church programs.

In rare cases, comparisons of plans with accomplishments are not appropriate because accomplishments are affected by variables which cannot be controlled and anticipated — such as might occur in an inner-city church. Accordingly, it may be necessary to present the results of the program to the congregation and let it decide whether the program is worth the budgeted resources used. In the final analysis, the congregation receives the bulk of the spiritual ministry, and, if benefits are received, the congregation normally will provide support in the form of money and/or attendance.

Conclusion

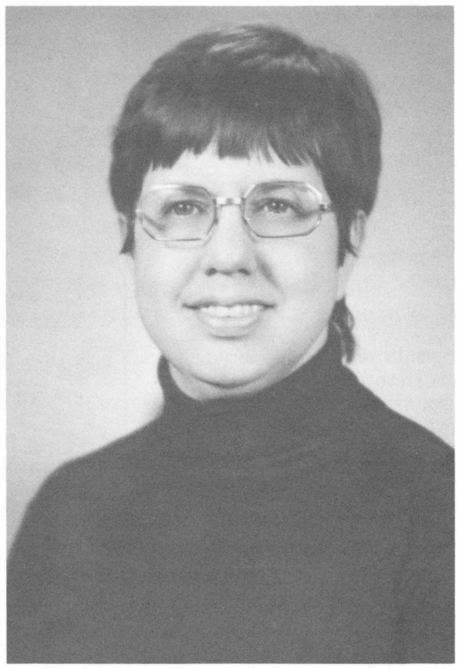
Evaluation of the effectiveness of resource usage in the not-for-profit environment focuses on what are considered "managemet controls" within the framework of overall internal control. Objectives should be clearly stated, a plan of action should be devised, procedures should be specified and adhered to, evaluation criteria should be developed, and control should be exercised through periodic review and assessment of accomplishments against objectives. Although a church organization was used in this article to illustrate basic concepts, similar procedures are applicable to all not-for-profit organizations in which outputs are difficult to quantify and to match against inputs.

Footnotes

[1]A program is defined as a course of action for which activities are directed toward the accomplishment of common objectives.

[2]Lennis M. Knighton, "Accounting for the Benefits of Public Programs," *The Federal Accountant*, (March, 1972), pp. 4-19.

The Accountant's Participation In A Nonfinancial Audit



Dr. Carole B. Cheatham, CPA
Mississippi State, Mississippi

The author describes types of nonfinancial audits being performed and describes the accountant's role in each of them.

Dr. Carole B. Cheatham, CPA, is Associate Professor of Accounting at Mississippi State University. She holds a B.S. degree from Bethany Nazarene College, an M.B.A. from Louisiana State University, and a Ph.D. from the University of Arkansas.

Her professional memberships include the American Institute of Certified Public Accountants, the American Accounting Association, the National Association of Accountants, and the American Woman's Society of Certified Public Accountants. She serves as Educational Projects Director for the Northeast Mississippi Chapter of the NAA. She is also a faculty counselor with the Small Business Institute, a program in which senior business administration students provide assistance to small business through the Small Business Administration.

Dr. Cheatham has a number of publications to her credit, among them an article on "The Attack on the Dollar Concept" in the April 1974 issue of The Woman CPA.

Anyone reading the literature in almost any field of business today is faced with a multitude of terms indicating some type of audit. For the accountant who automatically thinks of a financial audit when he or she sees the word "audit," the proliferation of audit terms can be bewildering. There are "performance audits," "operational audits," "behavioral audits," "socio-economic audits," and a host of others. The purposes of this article are to define some of the terms pertaining to these nonfinancial audits and to discuss the role of the accountant in a nonfinancial audit.

Types of Nonfinancial Audits

Before defining specific types of nonfinancial audits, perhaps it would be well to identify the entity to be audited. A useful distinction is that an organization has both a technical system and a social system.[1] Financial audits apply to the technical system while other types of audits usually apply to the social system. "Nonfinancial" seems as good a word as any to describe the category of audits that apply to the social system.

Allen, Park and Pilnick make a similar distinction between the surface organization and what they refer to as the shadow organization. They say of the shadow organization that:

> It is the social matrix that makes up the normative system of the organization. One learns about the shadow organization by observing what is really happening, not what is supposed to happen or what people want to happen.[2]

Most nonfinancial audits apply to the shadow organization and are accomplished largely by "observing what is really happening."

Although not an exhaustive list, some of the most frequently encountered terms that refer to audits of the social system or the shadow organization are management audits, performance audits, functional audits, behavioral audits and social audits.

Management Audit. The object of the management audit is to determine how effectively management is performing its duties. This type of audit is an audit of the management function. A helpful distinction is that a management audit should be an audit *of* management as opposed to an audit *for* management.[3]

Performance Audit. The performance audit evaluates the actions or operations of an organization or an organization segment to determine whether it has performed its activities in an efficient manner. These activities may include financial activities but only as a part of the whole performance. As a practical matter, the term "performance audit" is often used interchangeably with "management audit." Phrases such as "audit of management performance" appear frequently. A term that is similar to "performance audit" is "operational audit."

Functional Audit. The functional audit assesses how effectively a certain functional area of the organization is discharging its responsibilities. The functional audit also is often thought of as being synonomous with the management audit. However, the functional audit should be of the nature of an audit *for* management rather than an audit *of* management. The responsibility for performance is assumed to be at an operating level. "Functional audit" is also frequently used interchangeably with "performance audit" or "operational audit."

Behavioral Audit. A behavioral audit is chiefly concerned with the conduct of employees in their work situation, particularly in relation to other employees. Emphasis is on morale and motivational factors. Performance audits and functional audits are generally concerned with productivity, whereas the behavioral audit is concerned with the employees' adjustment to their job situation. Productivity is assumed to follow from high morale and good job adjustment.

Social Audit. A social audit is conducted to evaluate an organization's performance in relation to society as a whole. Typical of the items considered in a social audit are training programs, programs to help minority groups, installation of safety devices on machines, and pollution control. Social audits are also called socioeconomic audits.

To distinguish among the various audit terms one can think of them on a continuum in the order listed above. The management audit is the narrowest, concentrating on the organization's management; while the social audit is the broadest, evaluating the organization's performance in relation to society. The performance audit, functional audit, and behavioral audit concentrate in varying degrees on performance by segments of the organization.

Another helpful idea is to think of management audits, performance audits and functional audits as measuring how well people have discharged their responsibilities to the organization while social audits measure how well the organization has discharged its responsibility to people. Behavioral audits fall somewhere in between, recognizing both the responsibility of the organization to provide a proper work environment and also the responsibility of employees to the organization to perform in a loyal and dependable manner.

Role of the Accountant in a Nonfinancial Audit

It is doubtful that an accountant as auditor can take over the entire performance of any type of nonfinancial audit. The accountant is an expert in financial matters; therefore, he or she can set the standards for performance in that area as well as measure the results against the standards. In any nonfinancial area, the accountant is not an expert and is generally unqualified to set standards. However, the accountant can evaluate performance once standards have been set by management or behavioral scientists and in this way render valuable assistance in the nonfinancial audit. The accountant brings certain skills into an audit that apply just as well to a nonfinancial audit as to a financial audit. These skills include: 1) an ability to assemble and quantify data, 2) an understanding of the process of disclosure, and 3) a general attitude of objectivity.

Ability to assemble and quantify data. One of the most difficult and elusive tasks in a nonfinancial audit is the task of assembling and quantifying the data. After the standards for performance have been set, it is the auditor's function to assemble and quantify information relating to results. Accountants can put their skills to use in this particular area because their training and experience have prepared them to organize data. Quantification of data in a nonfinancial audit may take many forms — numerical scales, rating systems and cost-benefits ratios are a few of the measures used. Quantification by the auditor makes it possible to evaluate a mass of data in a meaningful manner.

Understanding of the process of disclosure. When management personnel or behavioral scientists conduct a nonfinancial audit, they sometimes limit the scope of the audit to areas of particular interest to themselves or they fail to disclose all their findings. This failure is due to a lack of understanding of the idea of full disclosure. The accountant knows that all information that is material to statement users and that will help them make decisions should be disclosed. It is helpful when the auditor can bring this ability into a nonfinancial audit.

Attitude of objectivity. One of the best tools an accountant has is his or her general attitude of objectivity. The accountant feels the results obtained from a survey of the organization should be verifiable by others. He or she strives to remain independent of any influences which might prejudice the conclusions. This attitude of objectivity is essential if the nonfinancial audit is to be a truly professional undertaking. An audit that reflects the subjective feelings or opinions of the auditor cannot possibly help the organization or society.

Conclusions

As social awareness grows, more audits of a nonfinancial nature will need to be conducted. These audits may range from an audit of the management of an organization to an audit of the entire organization to determine how it is discharging its social obligations to society. An accountant who is accustomed to performing financial audits may bring some very special skills into a nonfinancial audit. Among the skills that an accountant can profitably apply to a nonfinancial audit are: 1) an ability to assemble and quantify data, 2) an understanding of the process of full disclosure, and 3) an attitude of objectivity.

Footnotes

[1]Alton C. Bartlett, "Human Asset Accounting: The Behavioral Auditor Role," AIDS Meeting, February 1974, New Orleans.

[2]Robert F. Allen, Colin Park, and Saul Pilnick, "The Shadow Organization," *Management Accounting*, LV, No. 7 (January, 1974), p. 11.

[3]Charles H. Smith, Roy A. Lanier and Martin E. Taylor, "The Need for and Scope of the Audit of Management: A Survey of Attitudes," *Accounting Review*, XLVII, No. 2 (April, 1972), p. 270.

Education

Preparing for the Career Placement Interview

Dr. Loudell O. Ellis, CPA, CMA
University of Alabama in Birmingham
Birmingham, Alabama

As graduation approaches and placement interviews are scheduled, students across the nation become increasingly excited and nervous about the recruitment process. Such students seek advice from faculty, other students, parents, and friends already established in the business community. Even prior to the senior year, students inquire as to which courses would be useful for a desired career in public accounting, industrial accounting, various governmental agencies, or other specialized fields.

Four interviewers, believed representative of those recruiting accounting graduates on college campuses, were asked to respond to questions frequently asked by college students: David F. Stokes, Audit Manager and Director of Recruiting, Birmingham Office, Arthur Andersen & Co.; Carl S. Mays, Recruitment Coordinator, Atlanta Regional Office, U.S. General Accounting Office; Michael T. Peace, Recruitment Coordinator, Birmingham District, Internal Revenue Service; W.H. Wheeler, Personnel, South Central Bell. Questions and a summary of responses are furnished in this column — with the hope of better preparing accounting graduates for the interview process.

In general, what procedure or general format of coverage do you follow during the initial interview? (Many students are unsure of "what to expect" during the interview.)

Recruiters attempt to focus the interview on the student — to get the student to talk. According to David Stokes, the subject is not necessarily as important as "communication."

While there is generally no set format, recruiters normally provide a brief description of their respective organizations and thereafter attempt to learn as much about the student as possible in the limited time — personal background, high school and college activities, work experience, and other topics of interest to the student. Finally, the student is encouraged to ask questions about the recruiter's organization or the accounting profession. During the campus interview students are given the opportunity to present themselves; the organization will attempt to sell itself during an office visit.

Recruiters recognize that a student often is nervous when the interview begins. The reruiter will try to put the student at ease and to become better acquainted. In rare cases, a recruiter may put students on the defensive to test reactions to an adverse situation.

The Internal Revenue Service is the largest Federal employer of accountants, with 15,000 Internal Revenue Agents nationwide. In addition, the Internal Revenue Service also hires a large number of non-accounting majors as Treasury Enforcement Agents (Special Agents), Tax Auditors, Revenue Officers, Taxpayer Service Representatives, and others. During campus interviews, recruiters acquaint students with the Civil Service Commission Merit System application requirements and furnish job announcements. No written test is required for accounting majors. Interested students are encouraged to apply and to visit Internal Revenue Service offices.

What qualifications do you desire in a prospective employee? Do such qualifications differ for prospective woman employee or do additional qualifications apply (considering age, marital status, etc.)?

Arthur Andersen & Co.–Integrity is an absolute necessity for all employees. Additionally, all the following are considered important, in no particular order:

1. Technical ability. No cut-off for grade point averages has been established, but above average performance is expected in the areas of accounting, English, and all others (as a group).
2. Ability to communicate orally. Public accountants are required to deal and communicate with those in the business community.
3. Extracurricular activities, poise, professional bearing, motivation, and some knowledge of what public accounting is all about.
4. Reasonable level of self-confidence.

Arthur Andersen & Co. has no special policy on age. The above qualifications do not differ for a prospective woman employee, nor do additional qualifications apply. The firm evaluates a student's qualifications for a professional career, regardless of sex.

General Accounting Office.–As established by the Civil Service Commission, students with a Bachelors degree seeking employment with the General Accounting Office must meet any one of the following scholastic requirements: (1) Be in the upper one-third of the graduating class. (2) Attain a 2.9 overall average (on a 4.0 scale). (3) Attain a 3.5 (out of 4.0) aver-

Ms. Betty Saiia, IRS (left) interviews Ms. Tommie Cummings, student at University of Alabama in Birmingham.

age in the major. However, since grade point averages are only indicators of ability, additional areas for rating include:

1. Appearance, bearing, and manner (during the interview).
2. Ability to communicate orally.
3. Stability and social adjustment — how one reacts in personal relationships.
4. Mental qualities. Depth of comments during the interview session may indicate mental qualities.
5. Interest and motivation. Interest in GAO, not just a "job," carries significant weight.
6. Writing and analytical abilities. Such activities cannot necessarily be rated during a campus interview. However, they are important attributes for successful performance with GAO.

The above qualifications do not differ for a prospective woman employee, nor do additional qualifications apply. During the 1973-74 year for the Atlanta region, 16 out of 35 new employees were women.

South Central Bell.–Grade point averages are of utmost importance. Relatively high grades are impressive, although average grades do not exclude consideration. Average grades require a more critical evaluation of other characteristics. The fact that a student completed degree requirements while working eight hours a day does not excuse below average scholastic performance.

Other qualifications evaluated by South Central Bell include:

1. Health.
2. Extracurricular activities that demonstrate leadership. While employment may reduce time available for such activities, the student should have demonstrated leadership and supervisory abilities in connection with previous employment.
3. Aptitude and training in computers. Aptitude for computers often is evidenced by a strong math background or completion of several computer-related courses in college.
4. General personality and ability to get along with others.

Such qualifications do not differ for prospective women employees, nor do additional qualifications apply. During the interview session, both men and women are asked if they are available for relocation.

Internal Revenue Service.–Accounting majors interested in careers as Internal Revenue Agents must file an application with the Civil Service Commission for rating. While no cut-off grade point average is required, students who meet the high scholastic requirements outlined in the Civil Service announcement will receive higher entrance salaries.

Candidates also have an oral panel interview to rate communication skills, self-confidence, social adjustment, job interest, and other factors. "Meet and Deal" qualifications are important because of the public contact aspects of the Internal Revenue Agent's job. Qualifications for women and men are the same for all positions with the Internal Revenue Service.

What specific qualities of a prospective employee impress you during the initial interview?

All recruiters stress the importance of a career-oriented attitude and intelligent questions prepared by the student prior to the interview session. Recruiters are impressed when students ask relevant job-related (career) questions, as opposed to "take-care-of-me" questions concerning fringe benefits, sick pay, retirement, working hours, and so forth. In particular, a recruiter senses interest when students have read recruitment literature and are familiar with the organization and its policies.

Again, recruiters evaluate oral expression and the way students handle themselves while adjusting to the interview situation. Students should display a reasonable amount of confidence and poise, but not be cocky or overbearing. A student's enthusiasm and interest, in general, add to the recruiters estimate. An honest factual explanation for poor performance in a course — sickness, overload, difficult material — is far preferable to blaming the professor. Finally, good grooming and attire are important.

What specific accounting and business-related courses would you recommend as useful to students in preparation for employment with your organization?

Interviewers rely on universities at which they recruit to require courses providing well-rounded accounting and business backgrounds. The traditional accounting courses in Principles, Intermediate, Auditing, Tax, Cost, Advanced Topics, and Governmental Accounting appear adequate. Advanced coverage of any of these areas is also useful.

GAO encourages election of report writing courses whereby students learn to gather, analyze, and organize facts and then express their findings in written form. Additionally, courses in speech and interpersonal relationships are helpful.

South Central Bell encourages students to take all the accounting and computer work available. Courses using business games employing the computer are especially applicable.

Realizing that each individual case is different, what average percentage of time should an employee be prepared to spend in out-of-town travel during the first three years?

Arthur Andersen & Co.–Travel (away from home overnight) by members of the audit staff varies widely from office to office, from practically none to a high of 30-35% in a few offices. The tax staff spend very little time out of town, while those on the administrative services staff spend from a few days at a time to several weeks, depending on the nature of the engagement.

(Continued on page 18)

Electronic Data Processing

Implications of Real-Time Systems for Accounting Records

Part 2

Dr. Elise G. Jancura, CPA
The Cleveland State University
Cleveland, Ohio

Technical Characteristics of Real-Time Systems

The basic nature of a real-time system requires that a transaction be processed immediately as it occurs. This leads to systems that must be able to accommodate randomly occurring peak loads in an acceptable period of time. Some technique must be developed to handle and queue these transactions from various input sources without loss of any of the transactions. Further, some technique must be developed to identify and recognize priorities within these transactions, for if the real-time system is in fact controlling a physical process there may be a need for recognizing during a peak load the necessity of handling a transaction on some basis other than first-in, first-out. The need to handle simultaneous input from many parts of the system and to accommodate peak loads frequently results in a total system capacity that is not fully exploited by the real-time demands except during the peak-load periods. As a result, many real-time systems combine the processing of real-time applications with batch-processing applications, which occupy the system when the demands of the real-time transactions permit. This means that the control programming on the computer system must be able to accommodate more than one application program at a time and leads to the programming complexities present in a multiprogramming environment.

Multiprogramming is a mode of operation in a computer system in which more than one task is being processed concurrently. The internal control and scheduling problems in a multiprogramming system are quite complex but not peculiar to real-time systems. Many batch-mode systems, with or without remote input, operate in a multiprogramming environment. Multiprogramming introduces the need for the auditor to identify the actual program used in processing a given set of application data.

A multiprogramming environment introduces the possibility of concurrent updating of a master record. The control problem occurs in those instances where two or more programs access the same master record and simultaneously try to update it without benefit of the updating done by the other program or programs. The solution to the problem of concurrent updating is to prevent access to a given record by a second program until the first program has replaced its updated version in the master file. This can be accomplished by organizing access to the files through a file management, or supervisory, program that requires each application program to request permission of the supervisory program before accessing and updating the record involved. This is sometimes referred to as exclusive control. Because real-time systems involve simultaneous input from many parts of the processing system, the potential for attempted concurrent updating of a master file always exists. The problem of concurrent updating is not exclusive to real-time systems but exists in any kind of multiprogramming environment. It is, however, an additional consideration that must be taken into account in real-time systems.

In addition to a multiprogramming environment, many real-time systems operate in a multiprocessing environment. Multiprocessing refers to a situation in which more than one central processing unit operates in parallel. Multiprocessing can occur either with central processing units that are similar in nature or with central processing units that differ from each other. For example, in one configuration a small processing unit may schedule communication lines and then transmit the collected data to a larger processing unit. In another environment two processors of equal size and nature may share common memory or communication networks. The characteristics of heterogeneous input requiring the availability of many different kinds of processing programs, of a multiprogramming environment requiring the same variety of programs, and of a multiprocessing environment all dictate the need for a fairly complex operating control that can select processing programs and load them into core as indicated by the appearance of a particular form of input and that can coordinate the access to data files from multiple programs within a single central processing unit or from multiple programs within multiple central processing units.

The potential complexity of these kinds of systems requires a great deal of knowledge and technical sophistication on the part of the auditor and on the part of the installation as it designs its application programs and makes provision for control of its processing system. The implications for the auditor in testing the system are significant, for the physical and economic impact of shutting down one of these complexes to test an individual program on a stand-alone basis is such that it is not a feasible approach to take. In order to use the client's processing facilities in this kind of an environment, the auditor must have an adequate knowledge of the operating system and the characteristics of the system, so that the audit programs can execute concurrently with continued client processing. If the system shuts down during the night shift, the auditor can have access to the system on a stand-alone basis. But even in those circumstances, the auditor may still find it useful to use the client's operating system, thus requiring a knowledge of the job control language of that operating system.

Most advanced data processing systems and real-time systems maintain their master data in integrated files. The concept of file integration results in the combination of the data records for several different functions with similar information into single comprehensive sets of records. This process of creating single comprehensive records and thus a single comprehensive file minimizes the necessity for duplicate operations and duplicate records. These integrated sets of data records, frequently called a data base, become the master file for a number of different applications. The processing for an integrated data system or data base is characterized by the fact that a single source document describing a transaction is used to initiate the updating of all records associated with that transaction and affected by it. Although this results in an elimination of duplicate data within the master files and more efficient handling of all the facets of the transaction, it places a very heavy responsibility on the installation for maintenance of that single data base. Under this approach all of the pertinent master information and historical data is contained within one single master file or data base, and erroneous processing or inadvertent destruction of that single data base can have more serious implications for an organization than the destruction of a single master file that is only one of several master files for a firm. Integrated data systems need not be on a real-time basis, but many are so organized.

System Recovery Procedures

By definition, a real-time system is one that must be available for processing whenever transactions occur. Failures tend to be much more critical in a real-time system, because the computer is interacting with and to a large extent controlling its environment. Under these circumstances the need for system reliability and immediate, or at least timely, recovery becomes critical. At the same time, real-time systems represent much more complex combinations of hardware and programming, which create a difficult process for restarting the system. In addition, the fact that most real-time systems involve large data bases that usually are updated in a destructive mode introduces the requirement for determining the status of the data base and protecting its integrity during the down-time and restart procedures.

System restart in a real-time environment can rarely be accomplished merely by reloading the programs, remounting the data files, and restarting the system at the beginning. It usually requires instead the execution of specially prepared programming routines that are designed to search out the data files to determine the exact status of the processing previous to the error and to reposition all of the various elements of the system. Sometimes the most difficult part of a restart procedure is determining exactly which part of the system has failed and the status of all of the concurrent activities occurring within the system. The approach taken to recover from an error condition will vary depending upon the cause of the error. Thus, for a large real-time system with many remotely located terminals and communication lines, the procedure for an error in one of the terminals varies from the procedures for errors within the central processing unit or in the device containing the master data files.

Provision for reliability in a real-time system includes more than just restart and recovery procedures. It is equally important for the installation to include those physical and programming procedures necessary to test the system continually and to detect errors as they occur. Many errors (some caused by operator error, some caused by programming failure, and some caused by hardware failure) do not create system conditions that prevent continued operation of the system and therefore are not always readily apparent as they occur. Failure to detect these errors can result in data files becoming interlaced with erroneous information that is not apparent until some later time. Failure to detect errors promptly can also cause loss of background information that would have been helpful in diagnosing the cause of the error condition.

Despite the best planning, emergency situations will occur that have destructive effects on the data base. Interruption of processing in the middle of an update operation can introduce errors into the record currently being processed. Other error conditions, such as malfunction within the input-output device containing the data file (for example, a head crash in the direct-access file), can very effectively destroy the data stored there. Thus any recovery procedure must provide for verification of the accuracy of the data base and for reconstruction of any file information adversely affected by a systems failure. A critical requirement of an effective recovery system for a data base is the necessity to keep track of the consequences of every updating transaction. This is particularly important in the integrated file system, where one transaction affects several logically related records. It is not enough to know just which transaction was being processed at the time of the failure but the full impact that that transaction has had to the point of failure on the master records. A technique must also be developed to notify the user initiating a transaction (usually at a remote terminal) of the results of that transaction, so that the user is aware, in the case of a systems failure, whether that transaction has been processed or not and therefore whether it should be retransmitted or not.

One approach to reconstruction of the data base is to maintain a dual recording of the file. Updating transactions are used simultaneously to update both files. Error conditions caused by an input-output device (for example, either the disk file or drum) can be handled by this method, for the second device is unlikely to have a similar malfunction at the same time. Under these circumstances the recovery procedure would be simply to use the remaining good copy to duplicate the corrected data file. This approach has a weakness, however, for error conditions within other components of the system, such as failure of a central processing unit, an environmental failure, or an unexplained error in the application program, will produce the same erroneous condition in both copies of the data file.

Another approach, and the one most commonly used, is periodically to dump the data file onto another device, on a regularly scheduled basis. The most frequent technique is to dump a file contained on a disk to a tape file. This approach requires that all of the transactions that have occurred since the last dumping operation also be saved. In the event of a failure, all of these transactions must be reprocessed. To minimize the reconstruction time the dumping can be done on a

(Continued on page 29)

Financial Statements

Problems Related to Unaudited Statements for the Small Practitioner

Dr. Clara C. Lelievre, CPA
University of Cincinnati
Cincinnati, Ohio

Introduction

In 1968, eighty-eight percent of the corporations filing federal income tax returns had assets of under $500,000; and over 10 million non-corporate businesses filed partnership and proprietorship returns. These statistics indicate the astounding market for the members of the accounting profession serving the small business firms. Neither annual audits nor elaborate unaudited financial statements are a prerequisite to the successful operation of these businesses.[1] The owners of these businesses are primarily interested in pretax income and minimizing tax liabilities. The small business person is not interested in information which may be of little value, which must be developed so that unaudited statements conform to Generally Accepted Accounting Principles (GAAP), and which may cost hundreds of dollars in professional fees. Most Certified Public Accountants (CPAs) will agree that one set of accounting principles and disclosure requirements must apply to all size businesses, but the problems of client misunderstandings of unaudited statements, liability suits, unneeded information disclosures for closely held corporations, etc. cannot be ignored.

Historical Background of Unaudited Statements

In 1968, the Committee on Auditing Procedures of the American Institute of Certified Public Accountants (AICPA) issued Statement on Auditing Procedure No. 38 *Unaudited Financial Statements*, to clarify reporting requirements of a Certified Public Accountant in connection with unaudited financial statements. This statement was incorporated in Statement on Auditing Standards (SAS) No. 1 as Section 516. This section states the following:

> Although the CPA may have prepared, or assisted in preparing, unaudited financial statements, the statements are representations of management, and the fairness of their representation is management's responsibility. The CPA has no responsibility to apply any auditing procedures to unaudited financial statements.[2]

Although the above statement was believed to relieve the CPA of legal liability, the *1136 Tenants' Corp. v. Max Rothenberg and Company* case proved otherwise.[3] This as an action against the Rothenberg firm of CPAs to recover for the firm's alleged failure to uncover defalcations of the plaintiff's funds by its managing agent. The defalcations were hidden by reporting unpaid bills as having been paid. The accountants' defense was that they were retained merely to perform a write-up with no independent verifications undertaken, i.e., unaudited financial statements. The plaintiff was awarded damages equal to three hundred times the fee charged by the CPA. The court held that the defendant had in fact undertaken to perform an audit. The court further stated that even *if* the accountants had been engaged for *only* write-up work or to prepare unaudited financial statements, they (the accountants) were obligated to perform auditing procedures sufficient to uncover defalcations like those in the case.

Assuming that other courts will take a similar stand that the independent CPA, particularly the small practitioner doing mostly write-up work, must follow minimum procedures to uncover defalcations like those in the *1136 Tenants'* case, what then must the CPAs do to protect themselves? An *engagement letter* is a must for all examinations of limited scope and/or write-up work. This is a letter to or an agreement with the client, signed by the client, which outlines the description of services to be performed and the type of report to be issued. A study by Dan M. Guy and Alan J. Winters, surveyed the use of engagement letters when unaudited statements are issued and sought to determine if there was a correlation between familiarity with the *1136 Tenants'* case and the use of engagement letters.[4] The study revealed that only 11% of the respondents always used engagement letters for unaudited financial statements. Forty-six percent of the respondents who indicated they were "very" or "somewhat familiar" with the *1136 Tenants'* case, never employed engagement letters.

Dan M. Guy and Herschel Mann proposed that certain minimum review procedures be applied in all unaudited financial statement engagements.[5] Such minimum review procedures would aid in proving that the accountants exercised due professional care and would aid in providing a satisfactory level of service; such procedures would help guard against being associated with substandard financial statements. One of the suggested procedures is that of scanning the accounts for unusual aspects (i.e., unusual entries and their relationships). This scanning procedure possibly could have helped the accountant in the *1136 Tenants'* case, since missing invoices allegedly paid by the plaintiff's managing agent could have been noted as being unusual by their absence.

Special Problems of the Small Practitioner

Small practitioners face problems not met by the larger firms. Among these is the problem of *independence,* since many small CPA practices consist almost entirely of keeping client's books and preparation of unaudited financial statements and income tax returns based entirely thereon. These clients may be too small to afford a qualified in-house accountant-employee and may rely on the CPA to provide a full service accounting and tax program. Can a CPA who acts as a comptroller for several small businesses really be thought of as an independent professional? Could such a person who has almost complete control of all accounting functions avoid spotting almost any possible defalcation? Even if an engagement letter states that the accountant is not responsible for detecting frauds, would this be adequate evidence in a court case?

Small practitioners serve cash-basis clients, who do not understand that since income tax returns have been properly prepared on the cash basis, omission of accruals and deferrals may have a material effect on financial statements and/or results of operation. Therefore, it is inappropriate to use the terms balance sheet and statement of income with respect to a cash-basis statement or mention GAAP in expressing an opinion on them. If earnings per share are computed on the cash basis, and the statement is then converted to reflect GAAP, two widely different earnings per share amounts would be obtained which may seem to be inconsistent to many clients.

Problems with *disclosures* often arise with small business persons. Many disclosures of non-conformity with GAAP, with the effect thereof on the statements, can be so confusing as to render the statements meaningless. Some clients refuse to accept statements with necessary qualifications; they send copies of their income tax returns to interested third parties.

Further problems arise with *"for internal use only"* statements. Clients may not fully understand the limitations attached to them even though it's thoroughly explained. Men and women sophisticated in their own businesses are not always so when it comes to unaudited financial statements prepared by CPAs. Without prior warning, the client is apt to give one of the unaudited monthlies, quarterlies or annuals to a banker, a creditor or another third party.

Guide for Preparing Unaudited Financial Statements

In March, 1974, the Exposure Draft of the *Guide for Engagements of CPAs to Prepare Unaudited Financial Statements,* was published.[6] It sought to clarify requirements for, and aid in the preparation of, unaudited statements. (Until the final SAS is issued, the accountant should follow the exposure draft.) Since performing an audit requires extensive tests and examinations of the records, unaudited financial statements are prepared for many small firms. The purpose of the engagement must be made clear to the client. If the client is only concerned with obtaining assistance in preparing the financial statements, and is not concerned with the CPA's expression of an opinion on the statements, an audit presumably is neither necessary nor contemplated. The CPA should advise the client as to the type of professional services performed so that the statements serve the client's needs.

Association and Disclosures

When an accountant has prepared or assisted in the preparation of financial statements, an "association" with the statements is presumed. Since the CPA is "associated" with the statements, a disclaimer of opinion should accompany unaudited financial statements. The opinion of an unaudited statement should state that the CPA has not applied auditing procedures to the financial statements and cannot express an opinion concerning them. The *association* exists even though the CPA does not sign the financial statement or uses "plain paper" rather than firm stationery. When an accountant is performing ancillary services for a client, such as typing or reproducing, the client should be informed that the service is an accommodation and that it should not be construed as an accounting or auditing service.

Engagement Letters

The purpose of the engagement letter is to provide a written record of the agreement with the client stating the services to be provided. An engagement letter should state clearly the nature and limitations of the services to be performed. It should include a statement of (1) the limitations of the services (i.e., that the service will not constitute an examination in accordance with GAAP); (2) the reasons why a disclaimer would be issued; (3) why the procedures specified clearly do not constitute an examination of the financial statements and (4) the limitations as to possibility of detecting fraud and defalcations.

Professional Care

Since the CPA has not performed an audit, she or he cannot be expected to determine if the unaudited statements are in conformity with GAAP (which include adequate disclosure). However, awareness of GAAP may enable the CPA to spot statements that are not in conformity. When fraud or defalcations are uncovered or suspected, it is obligatory that the CPA bring any unusual or suspicious matters to the attention of the client. But the CPA has no obligation to apply procedures whose purpose is to bring to light indications that a fraud or defalcation may have occurred.

The *Guide* presents several pages of check lists to lend assurance against oversight and to provide a record of procedures performed. (Refer to *Guide* for complete list.) These should never be referred to as auditing procedures, only as checklists or minimum review procedures.

Disclaimers

The disclaimer of opinion was discussed earlier in this report and in this column in the previous issue. Each page, including the cover, should be marked "unaudited." Procedures performed by the CPA during an unaudited-statement engagement should not be described in the disclaimer of opinion; this might mislead the reader to believe that the statements might have been audited. Sections 516.04, .06 and .07 of SAS No. 1 describe the wording for disclaimers.

Internal Use Statements and Lack of Independence

Unaudited financial statements that do not include adequate disclosure can be given to the client for *internal use only.* The report must state that the financial statements are restricted for use solely by the company's management. Each page is to be labeled, "For Internal Use Only". The Statement of Changes in Financial Position may be omitted in "Internal Use Only" statements.

Independence, as discussed here, refers to a CPA having an interest in the client's business or being otherwise related to the client. A CPA who is not independent with respect to unaudited financial statements with which he or she is associated should mention this lack of independence in a disclaimer of opinion, but a statement on why independence is not present is not necessary.

Application to Tax Returns

Obviously, when a CPA prepares a tax return, Section 516 of SAS No. 1 does not apply. If, however, the CPA knows when preparing the tax return that a copy of the tax return is to be submitted to a third party, in lieu of a financial statement, such copy is considered as being used as a financial statement and a disclaimer opinion with footnotes for disclosures should be used.

Cash-Basis Statements

As discussed earlier in this report, cash basis reporting does not follow GAAP. The disclaimer of opinion could be clearly explained by stating that, due to the omission of accounts receivable and accounts payable, the financial statements do not present the financial position or results of operations of the company. This may not help with the problem of explaining to the client that cash-basis accounting does not objectively measure income or reflect a true balance sheet, but it does permit the use of cash-basis accounting when the client requests it.

Conclusion

The past seven years have seen a change in the attitude of responsibility for unaudited statements go from "anything goes" to carefully developed procedures to avoid liability. Now, even though the final AICPA's *Guide for Engagements of CPAs To Prepare Unaudited Financial Statements* has not been issued, the broader question of responsibility has been brought to the forefront. On October 7, 1974, a Commission on Auditor Responsibility was appointed by the AICPA to study the question of (among others) "Should Auditors be Responsible for Corporation Information Other than Audited Financial Statements, as Interim Statements?"[7] In the interim, the above mentioned *Guide* will provide some guidance for the small practitioners who seek to protect themselves from liability suits.

Footnotes

[1]Betty McGill and Peter Arnstein, "Unaudited Financial Statements — A Cloud of Dissent?" *Journal of Accountancy* 134 (December 1972):81.

[2]American Institute of Certified Public Accountants. *Statement on Auditing Standards No. 1.* (New York: AICPA Inc., 1973), 88-92.

[3]Irvin Schneiderman. "1136 Tenants' Corporation v. Max Rothenberg & Co. — Some Legal Considerations." *The CPA Journal* 42 (June 1972): 465-466.

[4]Dan M. Guy and Herschel Mann. "A Practical Guide for Reporting on Limited Examinations of Financial Statements." *The CPA Journal* 43 (July 1973): 556, 557.

[5]Dan M. Guy and Alan J. Winters. "Unaudited Financial Statements: A Survey." *The Journal of Accountancy* 133 (December 1972): 52.

[6]Task Force on Unaudited Financial Statements of the Auditing Standards Division of the American Institute of Certified Public Accountants. *Guide for Engagements of Certified Public Accountants to Prepare Unaudited Financial Statements - Exposure Draft.* (New York: AICPA Inc., March, 1974).

[7]Staff. "Seven Basic Issues". *Forbes* v. 114, November 1, 1974, 76.

Education
(Continued from page 13)

General Accounting Office.-Travel away from home varies from region to region. As of October 24, 1973, the following percentages applied to the regions indicated:

GAO TRAVEL REQUIREMENTS
APPROXIMATE PERCENTAGE OF TRAVEL REQUIRED

Regional Office	First 3 Years	Overall
Atlanta	75%	50%
Boston	15%	26%
Chicago	20%	20%
Cincinnati	90%	75%
Dallas	70%	50%
Denver	58%	36%
Detroit	15%	15%
Kansas City	50%	40%
Los Angeles	21%	31%
New York	10%	12%
Norfolk	29%	26%
Philadelphia	20%	30%
San Francisco	15%	20%
Seattle	30%	20%
Washington Regional Office	5%	8%
Washington Headquarters	5%	10%

Internal Revenue Service.-Travel for the Internal Revenue Agent depends on the post of duty, but — after the initial training period — generally less than 10% of the employee's time will be spent away from home.

South Central Bell.-Travel is insignificant except for occasional training courses.

In general, are there any circumstances or characteristics of women that impede their success with your organization?

Recruiters agree that there are no circumstances or characteristics of women that impede their success. David Stokes, Arthur Andersen & Co., added that promotions are based on demonstrated ability and performance. However, he stated that at AA the turnover rate nationally is higher for women than men. The principal reason for this higher rate is that women sometimes terminate their careers to raise a family or to accompany husbands transferred to locations without an Arthur Andersen & Co. office. Furthermore, women leave for the same reason as men, such as employment offers from clients, inability to progress professionally, or unwillingness to accept and deal effectively with the pressures normally associated with being a professional person.

Conclusion

Recruiters seek qualified personnel interested in a career in accounting. So — armed with technical ability, put on your best smile, believe in yourself, and talk to recruiters as friends (because they are).

Legal Developments

Public Law 93-495: The New Credit Law

Dr. Patrica C. Elliott, CPA
University of Washington
Seattle, Washington

Two parts of the new credit law[1] (signed into effect by President Ford on October 28, 1974) should be of interest to the readers of *The Woman CPA*. One is termed the "Fair Credit Billing Act" (Title III) and the other is cited as the "Equal Credit Opportunity Act" (Title V). Both Acts will become effective on October 28, 1975.

The Fair Credit Billing Act

The Fair Credit Billing Act greatly expands upon the Truth in Lending Act[2] which required (among other things) that creditors of open-end credit plans notify customers of the true annual rate of interest. Readers who have experienced the frustration of trying to get a billing error corrected will no longer have to cope with inane notices from a computer, endure harassment by the company and collection agencies, and run the risk of obtaining a bad credit rating. Chapter 4 of this act requires a creditor who has received a statement from the obligor regarding an error (meaning an incorrect charge, a credit not made or any other discrepancy) within 60 days of the billing to respond to the obligor within 30 days. The creditor must supply explanations of computations, copies of invoices or any other data to substantitate the charge. Furthermore, after 90 days (or two complete billing cycles if that time length is less) the creditor must make appropriate corrections to the account and notify the obligor of those changes. If the creditor believes the charges are correct, a written explanation or clarification together with documentary evidence must be sent to the obligor. If the dispute involves goods the obligor never received, the burden is upon the creditor to determine that the goods were actually "delivered, mailed or otherwise sent to the obligor."[3]

During the dispute, the creditor cannot make collection attempts including the mailing of statements of account unless it is clearly stated that no payment is required on the disputed item until it is settled. Any finance charges based on the disputed amount must be credited to the account if it is determined that the obligor did not owe the disputed amount.

Not only is the creditor barred from harrassing the customer, but no report of the disputed delinquent amount can be made to a third party and any subsequent resolution of the disputed amounts must be reported to the third party (presumably a credit bureau):[4]

> "After receiving a notice from an obligor as provided in section 161(a), a creditor or his [sic] agent may not directly or indirectly threaten to report to any person adversely on the obligor's credit rating or credit standing because of the obligor's failure to pay the amount indicated by the obligor under section 161(a) (2), and such amount may not be reported as delinquent to any third party until the creditor has met the requirements of section 161 and has allowed the obligor the same number of days (not less than ten) thereafter to make payment as is provided under the credit agreement with the obligor for the payment of undisputed amounts.
>
> "(b) If a creditor receives a further written notice from an obligor that an amount is still in dispute within the time allowed for payment under subsection (a) of this section, a creditor may not report to any third party that the amount of the obligor is delinquent because the obligor has failed to pay an amount which he [sic] has indicated under section 161(a) (2), unless the creditor also reports that the amount is in dispute and, at the same time, notifies the obligor of the name and address of each party to whom the creditor is reporting information concerning the delinquency.
>
> "(c) A creditor shall report any subsequent resolution of any delinquencies reported pursuant to subsection (b) to the parties to whom such delinquencies were initially reported."

If the creditor does not comply with these provisions, any rights to collect the disputed amount (plus finance charges thereon) are forfeited. However, the limit of the forfeiture is $50 (excluding finance charges).

While the Fair Credit Billing Act will delight consumers who have been harassed, creditors such as department stores will discover that more care and paperwork will be required of them. Two other provisions may displease creditors. One is that the creditor must allow a customer 14 days in which to pay a bill before finance charges are levied. The other is that a creditor cannont be prohibited from offering cash discounts to persons *not* using a credit card. This will affect merchants that accept the several popular bank cards. It may even result in retail stores competing for the cash customer's dollars via discounts. This would certainly be beneficial to the cash consumer and probably to the retail store since the charge made by the bank card company would be eliminated and the cost of carrying receivables would be reduced. In a period of high interest rates, many retail firms are feeling a liquidity pinch, so they may be pleased over the possibility of cash discounts.

Bank card companies will probably be extremely unhappy over the provisions of § 170. This section, in effect, renders the credit card issuer liable for all claims the cardholder has against the merchant honoring the credit card. The cardholder must first attempt to obtain satisfaction from the merchant, the amount involved must be over $50 and the transaction must have occurred in the cardholder's state of residency or within 100 miles of the cardholder's address. If these conditions are met, the issuer would be liable to the cardholder for any claims (exclusive of torts) against the creditor. The effect of this provision is uncertain, but it would appear that credit card companies would have to be very selective in choosing reputable merchants to honor their cards. They are certainly exposed to a much greater legal liability.

The Equal Credit Opportunity Act

While the provisions of the Fair Credit Billing Act affect all credit-card holders, another part of Public Law 93-495 is of particular interest to women. After many years of effort in Congress, particularly by Congresswomen Martha Griffiths and Bella Abzug, the Congress has found that there is a need to insure that the various financial institutions and other firms engaged in the extension of credit exercise their responsibility to make credit available with fairness, impartiality, and without discrimination on the basis of sex or marital status. Economic stabilization would be enhanced and competition among the various financial institutions and other firms engaged in the extension of credit would be strengthened by an absence of discrimination on the basis of sex or marital status, as well as by the informed use of credit which Congress has heretofore sought to promote. It is the purpose of this Act to require that financial institutions and other firms engaged in the extention of credit make that credit equally available to all credit-worthy customers without regard to sex or marital status.

For years women have been discriminated against by creditors. A single woman was not given credit because she might get married; married women could get no credit in their own right because they might get pregnant; and divorced women could not get credit because they had established none in their own names during their marriages. Quite often families with working wives could not buy homes because the wife's income was not counted. In 1972 the Federal Home Loan Bank Board conducted a survey of savings and loan associations and discovered that only 22% would count all of a wife's income; 26% would count half; 12% would count one fourth and 25% would count none.[6] The credit horror stories told by women include those where the divorced wife (who was the sole provider of the family during the marriage) cannot establish credit because the credit rating she had so carefully built up was in her ex-husband's name.

The new law is quite simply stated: "It shall be unlawful for any creditor to discriminate against any applicant on the basis of sex or marital status with respect to any aspect of a credit transaction."[7] The Board of Governors of the Federal Reserve System is charged with writing the regulations, and the enforcement of the law is distributed among many agencies depending upon the discriminating creditor. All creditors from home loaners and credit unions to the security brokers and dealers and the Small Business Administration are subject to the new law.

The remedies provided are interesting. Any creditor guilty of violating this law will be civilly liable to the aggrieved applicant for an amount equal to the actual damages sustained (either in an individual suit or a class action suit). In addition, in an individual suit, the creditor is liable for punitive damages of not greater than $10,000 in addition to actual damages.[8] Punitive damages in a class action are limited to the lesser of $100,000 or 1% of the creditor's net worth, with no minimum recovery for each class member.[9] In addition, the creditor has to pay court costs and attorney fees of the aggrieved party in a successful suit.[10]

It must be kept in mind that this law will not become effective until October 28, 1975. After that date there are several steps a woman must take to obtain redress. The National Organization for Women recommends that a woman applying for credit should ask what the standards of "credit-worthiness"[11] are. If she meets those standards and credit is denied, she should demand to know exactly why and, if possible, to get the reasons in writing. If she indicates she is aware of the law, the problem may be solved immediately because most firms do not want unfavorable publicity or the legal hassle. If satisfaction is still not obtained, she should take the case to the local Federal Trade Commission (which is expected to bear the most responsibility for the enforcement of the law). The F.T.C. would either forward the complaint to the appropriate agency or investigate the complaint itself. The Act gives the F.T.C. (and other responsible agencies) the right to obtain a permanent or temporary injunction, restraining order, or [to take] other action.

The aggrieved person must understand that the burden of court action is upon her. The F.T.C. will not generally represent an individual but an individual complaint will quite often reveal a pattern of discrimination and the agency involved will take formal action in such cases. Otherwise the woman has to go to a private attorney and take the case to court at her own expense. (Of course, if she wins the expense will be paid by the creditor.)

It is a long, trying experience for an aggrieved person to sue a creditor. The remedy section of the law is quite difficult. However, it is expected that the law will be enough of a deterrent that the blatant discriminatory actions of the past will be eliminated. The most subtle acts of discrimination ("Do you plan to have children?") will have to be eliminated by a few brave women in really good test cases.

In short, the Fair Credit Billing Act will not insure every woman of credit anytime or anywhere she chooses. All it will do is insure that a credit-worthy woman will be considered on the same basis as a man, regardless of her sex or marital status.

Footnotes

[1]Public Law 93-495, 93rd Congress, H.R. 11221, October 28, 1974.

[2]U.S.C. 1637

[3]Chapter 4, § 161

[4]Chapter 4, § 162

[5]Title V, § 502

[6]Testimony of Martha W. Griffiths, "Testimony before the National Commission on Discrimination in Consumer Credit," May 22, 1972.

[7]Equal Opportunity Credit Act, Title VII, § 701 (a).

[8] § 706 (b)

[9]§ 706 (c)

[10]§ 706 (e)

[11]"Equal Credit Doesn't Have to Be Easy Credit," *The Seattle Times*, Sunday, November 17, 1974, p. G.6, Col. 1.

Personal Management

Career Assessment and Marketing Guidelines

Jean E. Krieger, CPA
Haskins & Sells
Columbus, Ohio

GUEST WRITER: This column was written by Anne P. Hyde who is an owner and principal in Management Woman, Inc., an executive search firm in New York City.

Ms. Hyde, who was born and educated in England, is a graduate of London University and came to this country in 1963. She knows corporate management in the United States and Europe. As a presidential assistant in an international real estate firm, she reorganized personnel and administrative policies and procedures for offices located throughout the U.S. and Europe. Prior to that she established a new division at a major U.S. advertising agency, was corporate manager for a firm of international management consultants and executive search group, and supervised corporate personnel and administration for a European hotel chain.

As executive recruiters and principals of our own firm, my partner and I have interviewed in-depth, several hundred women executives and have reviewed resumés of over 1,800 middle and upper level management women in all disciplines. With this exposure, we have been in a position to observe, evaluate and analyze the professional business woman. In this article we will share some of our findings.

Opportunities for women in all areas of business and industry have increased considerably during the past decade. Emergence of "The Women's Movement" with its visibility and thrust in the 60's and the use of the government's enormous purchasing powers to enforce Equal Employment Opportunity, did a great deal to open doors hitherto closed to women. Reinforced by passage of the EEO Act of 1972, these factors have had a major impact on every U.S. employer. They "started the ball rolling", and today we can see very definite progress. The expanding need for services offered by Management Woman, Incorporated, and the corresponding growth of our firm, bear witness to the changing scene.

Realistically, of course, neither the corporate world nor society at large is going to alter overnight. People are creatures of habit, resisting change until it is thrust upon them. Nevertheless, women have been quietly preparing themselves for growth and upward mobility. With advanced education, or perhaps practical experience gained in secondary or supportive roles, many seek opportunities to progress. For the individual, such opportunities may or may not appear.

Marion S. Kellogg, a management development specialist at General Electric, recently pointed out in Business Week that "To a far greater degree than most people imagine, a career can be managed . . ." This will be the theme of the balance of this article.

Determining Career Goals

In a career track, opportunities are not always readily apparent. Certain assessments and decisions are necessary, and decisions to transfer to a different job with your current employer, or to change employers, are frequently based on the notion that movement is necessary for advancement. But before making the decision to move, a career-conscious woman must make some careful evaluations.

Goal-setting, if kept flexible, can spur you to action when your progress appears halted. It helps evaluate alternative opportunities within and perhaps outside of your present environment. It provides the necessary basis for making any career decision. Look around in your present company and evaluate what the opportunities might be. Would a lateral move give you the chance to obtain greater depth and breadth of exposure? Would a slight shift in direction within your present company give you the chance you seek? Do you have the right qualifications to take advantage of that chance?

A career plan is nothing more than an instrument of self-appraisal. It must begin with that all important look at yourself: "Do I know the things I like best?"; "How hard am I willing to work physically and mentally to achieve my goals?"; "Am I willing to give up leisure time to obtain further education?"

Determine your goals and objectives, both immediate and long-range. Once determined, these goals will help you search for and recognize opportunity. As new situations arise, each presenting its opportunities and its risks, goals will help you evaluate these factors rationally.

We have always recommended that the executive woman have a professional history written and ready, even though she may have no intention of leaving her present job or company. The reason is simple: By maintaining an updated resumé, she establishes a reviewing method that will let her know if she is on-track in her chosen career pattern and within her determined timeframe. Think of your resumé as a form of business biography. You would not write just one biography in a lifetime. You must always expand the list of achievements, eliminating those initial, now less important accomplishments, and emphasizing the latest milestones. Thought of in those terms, an updated resumé is a vital tool for executive evaluation. As you change and grow, so will your goals and objectives.

Few, when the look back over a 20-year track, can honestly say that they envisioned one objective and one alone. Frequent review of yourself, your achievement record, your goals, your successes and failures, your strengths and weaknesses, will provide a great deal of insight.

Keep in mind that more can be learned from failures than successes. Do not push failures "under the carpet". Review, assess and learn. Interviewers often ask that candidates identify their weaknesses. I am aware of one situation in which a woman's failure to respond to such a question lost her a $40,000/year job. To the interviewer, her inability or unwillingness to speak of weaknesses indicated that she was not secure enough to identify or recognize them — and thus she would hardly be able to rectify them.

Self-review is not easy. I know that only too well. Twice in my own career, I have had to take a hard objective look at myself and my career, considering where I was, where I wanted to go, and what I had done to help secure my own success. The answers to these questions were not always to my liking but they provided the basis for making necessary decisions.

Preparing the Resumé

Now let us assume that a move from your present company is imperative. You have done your preparatory evaluations, established goals, and are about to write an updated resumé for presentation to a prospective employer. What do you leave in, and what do you delete?

In preparing a resumé, the cardinal rule is to "be the reader, not the writer". A resumé should tell the reader just enough to entice, leaving out all that is not relevant to the job. If you think it is important, additional background can be brought up in the interview. As quoted recently in Business Week, "you use a resumé to open a door, you don't use it to do a complete selling job. You sell yourself at the interview".

A great many people ask, "Why do I need a resumé? I never needed one in the past. Why can't I meet the company's executive and explain?" On the surface, this is logical. The problem is that executives today are constantly on the run. Having a prepared document before them, presenting you as you wish to be presented, saves time that would otherwise have to be spent during the interview. The resumé saves time so that you have an opportunity to elaborate on those points of your career which you wish to emphasize.

As an executive recently remarked: "The majority of resumés end up in waste baskets." Keep yours out of the trash can so that it can produce an interview. One expert has estimated that a large company will receive as many as 250,000 resumés a year? Remember, length is not indicative of quality. Keep your marketing document short and pertinent. One page is fine, two the maximum. It should be easy to read, concise and directed toward your desired goal.

If you have defined two possible job routes, for example accounting and administration, then *two* resumes will have to be composed, each postured toward the desired goal. It is unlikely that you will want to include everything on both resumés. Everything relevant to accounting will probably not be relevant to administration, and vice versa. Decide what items present your strength for each goal, and eliminate all that is not pertinent.

If you have had a diversified career, then the established chronological format is desirable, i.e., yearly dates, job title and company identification. Then write a clear, concise paragraph or two (in third person) detailing highlights of your career which you wish to emphasize. Elaborate the details of your present and last jobs, since those accomplishments will point up your current level of responsibility and justify advancement to the position you seek.

Marketable assets include the following:

- responsibility in terms of budget, sales, title and people supervised;
- communication skills such as report writing, and experience communicating with various levels of management and with outside clients;
- timely attainment of specific company goals and objectives;
- total, accountability for projects, including creation, design and implementation;
- technical in-depth knowledge or just general exposure, where relevant;
- education, extra seminars and management training; and
- any other comments which indicate that the company you work for gets a good return on its investment in you.

Some Do's

- Include dollar figures. If you have controlled or managed a budget, mention the specific amounts.
- Include only outside activities that are relevant to the position you seek and that indicate management ability.
- Include the numbers and the levels of people who report directly or indirectly to you.
- Be a name dropper whenever possible. Unfortunately, corporations are still interested in the "right" schools and the "right" companies.

Some Don'ts

- State how loyal, aggressive, friendly, attractive and bright you are.
- State your age, marital status, number of children, husband's name or occupation, send a picture or list hobbies. These are not relevant to your job.

It is becoming increasingly important that prospective employers know if you will relocate. An executive is expected to be very flexible these days, and corporations will always consider executives more promotable if they show commitment. Willingness to relocate is commitment.

Always provide a telephone number where you can be reached. Letters are costly and time consuming. You may miss out if another candidate is easier to reach than you.

Finally, your resumé has been composed, and you are ready to produce and send it to those companies identified as perhaps being interested in your qualifications and expertise.

Since your resumé frequently precedes you to an interview, it should present you at your best. In business, image is all. Therefore, no "wet" reproductions or xeroxed copies. Have it professionally typed and offset, with no typos, no added items in ink, and deletions. If you feel this piece of advice is unnecessary for professional women, my reaction must be "How I wish it were true". Resumés have come to us in numerous unprofessional states, written illegibly in pencil and

(Continued on page 31)

Reviews

Writings in Accounting

Dr. Marie E. Dubke, CPA Editor
Memphis State University
Memphis, Tennessee

"UNDER THE SOUTHERN CROSS," Raymond F. DeVoe, Jr., FINANCIAL ANALYSTS JOURNAL, Vol. 30, No. 5, September-October 1974.

The author feels that, with prices doubling every decade because of two digit inflation and with indexing as a possible solution, Brazil's experience with indexing should be analyzed. The article has a brief introduction followed by a history of indexing, Brazil's economic miracle, Brazil's inflation, and a conclusion.

Inflation was traced back 4,000 years to the Code of Hammurabi where strict ceil ings were placed on the price of wheat. However, the most important example given was Germany's experience with inflation. Adjustments to the index became a daily process and workers were paid two and three times daily. Moreover, they rushed to purchase goods before the Marks declined in value. DeVoe points out that this was the primary reason why indexing has become illegal in Germany. Ironically, Germany has had the best record against inflation.

Brazil achieved its economic miracle by the "Seven Pillars of Economic Development." They were (1) abolition of politicians and political parties, (2) domestic stability, (3) a hospitable climate for foreign capital, (4) a high rate of internal savings, (5) the "crawling peg" devaluation, (6) high tariff walls and (7) a "New Frontier" type of belief in capitalism. The first three pillars were assured by the 1964 military coup. The fourth pillar was encouraged by new tax laws that made saving desirable. In reference to the fifth pillar, Brazil has devalued its currency about once every 40 days since 1964. This avoided the jolt of a once-a-year devaluation and international monetary profiteering. The sixth pillar was self-explanatory and the seventh pillar attempted to develop the Amazon hinterland and stress Brazilian individualism.

Brazil uses five methods to deal with inflation. They are (1) strict control of the budget and monetary policy, (2) price regulations, (3) wage restraint, (4) the "crawling peg," and (5) "monetary adjustments," the use of indexes. The system is very complex and perpetuates certain aspects. Companies can write up the value of assets every year in relation to the standard index. However, some food items are not considered in Brazil's cost of living index and this omission reduces inflation.

DeVoe concludes that indexing has never attempted anything more than adjusting to inflation. Indexing is an admission that everything else has failed and that politicians will not attack the causes of inflation. Furthermore, the suppression of inflation is based on Draconian measures and "monetary adjustment" may be quite misleading in relation to the real rate of inflation. In addition, indexing has worsened the distribution of income in Brazil and the system has become a bookkeeper's field day.

Brazil is compared with the Southern Cross, one of the constellations in the Southern Hemisphere. However, unlike Polaris which points to true North, the Southern Cross is divagational and is not indicative of true South. Therefore, the implication is that those who follow the Brazilian example will find themselves way off course.

The article is very informative in that it evaluates a country's experience with indexing as a method of coping with inflation.

John Cothran
Memphis State University
Graduate Student

"ETHICAL STANDARDS: FOUNDATION FOR EXCELLENCE AND FREEDOM," Norman O. Olson, THE ARTHUR ANDERSEN CHRONICLE, Vol. 34, No. 3, July 1974.

Many recent events have shown evidence of the public's growing disbelief in the governmental, business, and professional institutions of this country. Such disbelief is especially harmful to the accounting profession because of its need to remain independent and objective *in appearance* as well as in fact. As the public loses trust in the accounting profession, the government will increase regulation of the profession.

Olson sees the establishment and maintenance of high ethical standards as the means by which to restore public trust in the accounting profession. In his opinion these standards must go beyond mere rules of ethics which tend only to define minimum guidelines for conduct. As members of the profession decide that they need only respond to these rules, they relieve themselves of personal ethical responsibility to the public.

The "extensive detailed procedural requirements" of the Opinions issued by the former Accounting Principles Board are considered in this article to be such rules. Olson maintains that these rules led some public accountants to subconsciously relieve themselves of their personal responsibilities and to accept the rules as a "crutch" in dealing with clients. The trend toward adopting this type of crutch is, in Olson's view, one of the signs of the deterioration of accounting as a true profession. This trend must be stopped, he thinks.

Maintenance of high ethical standards is Olson's solution to the problem of stopping the trend. Once the objectives of the accounting profession are established, public accountants may be entrusted to apply these objectives to each individual set of circumstances — providing that the accountants operate within these standards. The public will then have a basis for belief in the independence and objectivity of the accountant and therefore in the accounting profession itself.

Olson's solution appears to be a feasible one. His criticism of the APB Opinions, however, is perhaps rather harsh. As he points out, the matter of ethics is a personal one. There will probably always be some persons who do not consider "dedication to high ethical standards . . . the only sure path to self-fulfillment" as Olson does. As long as these persons do exist, the need for rules guiding ethics will also exist. Considering this need, the accounting profession should strive to promote ethical behavior *beyond* what is required by these rules rather than relying solely upon the adoption of personally defined ethical standards by individuals within the accounting profession.

Leslie A. Boyd
Memphis State University
Graduate Student

"NON-ARM'S-LENGTH TRANSACTIONS: THE AUDITOR'S RESPONSIBILITY," L. Todd Johnson, THE CPA JOURNAL, Vol. XLIV, No. 11, November 1974.

Accounting data is composed of the results of transactions conducted at arm's length by independent parties. Accounts that do not represent arm's-length transactions are not acceptable for inclusion in the financial statements. Although accounting authorities have recognized the need for disclosure of non-arm's-length transactions for a long time, they have not provided standards for the detection of such transactions.

The article gives two examples of lawsuits against auditors involving this ambiguous area. In *Continental Vending*, the auditors failed to disclose a non-arm's-length transaction; in *Westec* the auditor failed to detect such a transaction. Expert accountants could testify both for and against the auditors and their claims that their professional obligations did not require of them more action than what they took. Obviously, such lawsuits discredit an already tarnished profession.

Johnson believes that the Auditing Standards Executive Committee should take action at once. For adequate disclosure of non-arm's-length transactions he believes that Reporting Standard No. 3 should be restated to give it a more active tone. A new statement on auditing procedure should be issued requiring that auditors who have detected a non-arm's-length transaction must (1) attempt to have the client void the transaction, or (2) attempt to persuade the client to put such a transaction on a basis equivalent to an independent transaction, or (3) issue a qualified opinion or a disclaimer of opinion if the client does not cooperate in fulfilling either (1) or (2) above.

For detection of non-arm's-length transactions, Johnson feels that Field Work Standard No. 3 should be changed to require that auditors verify the identities of parties transacting a large amount of business with the client. Also, routine transactions should be sampled for the identity of the other party.

Johnson quotes Roland Salmonson as saying that, unless the accounting profession acts now, it will receive an embarrassing inictment for allowing its members to be held legally liable for following the profession's rules and procedures for detecting and disclosing non-arm's-length transactions.

The article is well written. It provides food for thought. Management may be severely tempted to transact and hide a lot of non-arm's-length transactions now that APB Opinions Nos. 9, 15, 20, and 30 have taken away much of the ability of management to juggle numbers to arrive at a predetermined earnings-per-share figure.

John C. Carey
Memphis State University
Graduate Student

"THE WAR OVER CORPORATE FRAUD," Arlene Hershman, DUN'S REVIEW, Vol. 104, No. 5, November 1974.

The question posed by the author in this article is whether or not auditors are, or should be, financially responsible for insuring that management fraud does not occur. When management fraud comes to light, should auditors be financially liable to corporations, or other entities, for losses suffered from investor law suits? Further, should auditors be directly responsible to investors for losses incurred due to their failure to uncover management fraud? The author points out that the SEC is a leading proponent of the fight to force this responsibility onto auditors but notes that the courts have generally taken a conservative stance on the subject, usually requiring specific evidence of misdeeds on the part of the auditors.

Only passing reference is made to the adequacy of Generally Accepted Auditing Standards. The main point of contention is viewed rather as a misunderstanding or disagreement, depending upon one's position in a specific situation, as to the scope and purpose of an audit. The author makes note of the various opinions held by a wide range of participants in the controversy, including both informed and uninformed judgment. Some parties wonder what the purpose of an audit is if not to detect fraud, while accountants speculate as to the cost of a truly comprehensive audit relative to the cost of audits currently being performed.

Worthy of note is the author's finding that many accounting firms have become more determined than ever to fight law suits brought against them from various segments of the business environment. The general feeling appears to be that the ease of settling out of court has led to an increasing number of law suits in an already litigation-prone environment. Aside from the obvious implications to the individual litigants, the author points out the less obvious, but potentially more damaging, effect which continued legal fighting could have on investor confidence and therefore on the entire economy.

Having covered all of the major views and opinions involved, in a concise yet comprehensive manner, the author concludes that 1975 will bring no dramatic relief to this area of contention. Rather, she foresees a gradual acceptance on the part of all interested parties of somewhat more compromising positions. The courts of course will continue to be the final authority, handing down more decisions as to what responsibilities auditors must or must not assume. One need only consult history to find that this has always been the case. Only the future will reveal the wisdom of their decisions.

John L. Carlson
Memphis State University
Graduate Student

Tax Forum

The Plight of the Homeowners' Associations

Mable W. Kitchen, CPA
Price Waterhouse & Company
Cincinnati, Ohio

GUEST WRITER: This column is the work of Stephen D. Higgins, CPA, a tax manager and the director of international tax operations in the Minneapolis, Minnesota, office of Touche Ross & Co.

Mr. Higgins is a graduate of the University of Minnesota and a member of several professional societies. He is a frequent contributor of international tax articles to the monthly publication of the Minnesota Society of CPAs, has participated in a number of seminars on international taxation, and was the guest writer of the Tax Forum in the July 1974 issue of *The Woman CPA.*

It appears inconceivable that homeowners should have to include in taxable income funds set aside to use for painting the exterior of their houses in the future, but that is essentially the predicament of homeowners belonging to homeowners' associations.

Normally the association is a nonprofit corporation established by homeowners (generally townhouse owners) to provide for the normal maintenance of the grounds such as the mowing of lawns and shoveling of snow and also the maintenance of the exterior of the homes. The association usually makes monthly assessments of its members to cover the above costs and normally accumulates funds for the repainting of the houses rather than making a large assessment at the time of repainting.

Many homeowners' associations had considered themselves tax-exempt organizations under Section 501(c)(4) of the Internal Revenue Code and had requested and received determination letters to that effect. However, at some point the Internal Revenue Service had a change of heart and in 1974 the Internal Revenue Service formally announced through Revenue Rulings 74-99 and 74-17 that homeowners' associations would not qualify as tax-exempt organizations.

At present the Internal Revenue Service is revoking the exempt status of homeowners' associations in those cases where they had previously issued favorable determination letters) and requiring the homeowners' associations to file corporate income tax returns for prior years.

In filing returns for prior years consideration may be given to excluding the excess of receipts over disbursements from taxable income under the so-called conduit theory. Under this judicially developed theory an entity is not taxable on funds it does not have unfettered control over. Under the governing documents of a homeowners' association, the association is normally restricted in its scope of activity and essentially does act as a conduit to funnel money from its members to independent contractors. However, it now appears that the Internal Revenue Service will not honor this position. In Revenue Rulings 74-318 and 74-319 the Internal Revenue Service withdrew their acquiescences in the leading cases on the conduit theory and substituted nonacquiescences. The Internal Revenue Service further implied that, even if the excess of receipts over disbursements of a fund could be excluded from taxable income of an entity under the conduit theory, the contributing members of the fund may constitute an association taxable as a corporation and may be taxable on the excess of receipts over disbursements.

It appears that homeowners' associations should consider the following steps of action:

1. If the association has a cumulative excess of receipts over disbursements through the beginning of the year, consideration should be given to curtailing assessments for the year to attempt to create a net operating loss to carry back against prior years' income. Note however that Section 277 may only allow a carry forward of such a loss.
2. Consideration should be given to establishing a separate fund for painting and capital improvements. In connection therewith the governing instruments should provide for annual capital contributions by the members to such fund. There is statutory authority (Section 118) and case history for excluding capital contributions from income and the Internal Revenue Service as informally agreed with this approach in some cases. It recently took this approach in Revenue Ruling 74-563. However, the capital contribution exclusion does not apply to money or property transferred to the corporation for services rendered.

(Continued on page 29)

Theory & Practice

Reporting in an Uncertain Environment

Marilyn J. Nemec, CPA
Partner, Alexander Grant & Company
Chicago, Illinois

Uncertainties

The Securities and Exchange Commission concluded 1974 by issuing Accounting Series Release No. 166 which urged, rather than required, companies whose securities are registered under the Securities Acts of 1933 and 1934 to consider the need for substantial and specific disclosure of unusual risks and uncertainties arising from changing economic circumstances. While the SEC directed these recommendations to public companies, problems arising from current economic conditions are not limited to public companies. Privately-held companies are just as likely to have the same types of problems and it seems appropriate for private companies and their independent auditors to seriously consider the SEC's recommendations for substantial and specific disclosure.

While stating that an all-inclusive list of unusual risks and uncertainties cannot be given since changing conditions produce new uncertainties and resolve old ones on a continuing basis, the SEC provided several examples indicating the "substantial and specific" disclosures that might be made. The situations cited are:

- Loan and loan loss reserves of financial institutions
- Decline in market value of investment portfolios
- Deferral of fuel costs by public utilities where public utility commission orders do not assure recovery
- Estimated cost of raw materials such as crude oil for international oil companies where the purchase price is still under negotiation
- Companies in a position where a small number of projects will have a dominant effect in determining success or failure

Specific requirements for form or content of the necessary disclosures were not provided since the most appropriate presentation depends upon the facts of the particular case. Modification of appropriate financial statement captions and expanded disclosure in the notes to financial statements, including results under alternative assumptions, were suggested. In more extreme cases, the SEC suggested consideration of the need for revising the basic format of conventional financial statements.

A critical point not specifically dealt with by the SEC release is that a company which appears healthy by application of the classical tests to the face of its financial statements may be facing serious trouble in the near future because of today's economic conditions. Some other factors which might be considered are:

- A company which has had no prior difficulty obtaining bank loans is experiencing difficulty with its current financing arrangements.
- While the company does not have a deficiency in working capital, its collections on receivables have slowed considerably and orders for its products have decreased.
- Major suppliers are experiencing financial difficulties and alternative suppliers are not available.
- While the company is not currently in default on any of its long-term debt covenants, default on certain covenants appear likely during the coming fiscal year.

Of course the classical indications of financing and operating problems should be considered:

- Liquidity deficiency— the company's current liabilities exceed its current assets, which results in difficulty in meeting current obligations.
- Equity deficiency— the company's solvency is questionable because of the retained earnings deficit or, in more extreme cases, an excess of total liabilities over total assets.
- Debt default— the Company has been unable to meet debt payment schedules or has violated one or more other covenants of its loan agreements.
- Funds shortage— the company has either limited or no ability to obtain additional funds from various financial sources.
- Continued operating losses— no net income has been earned for more than one past period.
- Prospective revenues doubtful— revenue is insufficient for day-to-day operating needs, or there have been cut-backs in operations.
- Ability to operate is jeopar-

dized— legal proceedings related to operations may severely curtail operations or suppliers of materials may refuse to sell to the company on credit.
- Poor control over operations— the company management has been unable to control operations, as evidenced by repetitive, uncorrected problems.

The determination of whether a company may be facing financial, operating or liquidity difficulties in the near future cannot be made with a high degree of precision and involves the exercise of judgment about future events. However, because of current economic conditions, it is necessary to pay particular attention to circumstances, such as those previously described, which may affect the realizability of assets, the orderly amortization of debt obligations and, in some cases, the ability of a company to continue normal operations in the future.

Where circimstances point to potential uncertainties concerning liquidity, financing, realization of assets and/or going concern status, it is important that the auditor perform and document procedures which form the basis of the conclusions as to any disclosure which may be necessary in the financial statements and the effect, if any, of the matters on the auditors' report. Documentation should be prepared at the time the decision is made, and not two years later, when the decision is questioned. Procedures which might be considered necessary in the circumstances could include some or all of the following:

- Discussions with management about operating and financial plans and goals.
- Reviews of operating and cash forecasts for the current year and, if necessary, for subsequent periods.
- Confirmations from lenders concerning events of default under loan agreements or information concerning existing commitments for future financing, if such commitments might be cancelled.
- Information which may be pertinent to the prospect for and the availability of future financing, if additional financing or refinancing of existing debt would appear necessary during the next fiscal year.

When evaluating uncertainties and their potential effects, reference should be made to Statement on Auditing Standards No. 2 for reporting considerations.

Marketable Securities

Of the uncertainties mentioned by the SEC, the one of most general applicability is decline in market value of investment portfolios. Both profit-oriented and not-for-profit entities are likely to have investment portfolios.

The balance sheet classification of investments in marketable securities as either current or non-current assets is an important determination and one which may affect the accounting for the investments. The following guidelines might be considered:

- Investments which management intends (or may be required) to dispose of or which will mature during the next year should be classified as current assets.
- Investments which represent excess funds available for operations are often classified as current assets even though no plans exist for disposal during the next year.
- Investments which management specifically indicates will not be disposed of during the next fiscal year are classified as non-current assets provided that the company appears to have the ability to hold such investments for longer than a one-year period.

Intent of management to retain the securities for a period in excess of one year should be documented by written representation, preferably a resolution of the Board of Directors, or the investment committee, if such a committee exists. Documentation of the client's ability to hold investments classified as non-current should include a review of the company's working capital needs, considering estimates of future operating needs, commitments, capital expenditures and the like.

Current thinking among independent auditors seems to indicate a trend toward adopting a policy that marketable securities appropriately classified as current assets should be recorded at the lower of cost or market value, if market value is significantly below cost. Considerations underlying such a policy include the overall concept of current assets and current liabilities; the persistence of current economic and stock market conditions; the uncertainties concerning the prospects for substantial recovery within the next year; the fact that the current asset classification implies the investments will (or may be) converted to cash during the next year; and the fact that most current assets are stated at the lower of cost or market or realizable value.

A policy that marketable securities appropriately classified as non-current assets should generally be recorded at cost is still considered proper. This follows from the fact that where marketable securities are appropriately classified as non-current assets, an implicit representation is made that the investments will not be converted to cash during the next operating cycle. Since the investment is viewed as long-term, the determination of whether decline in market prices of securities represent losses which may not be recoverable becomes more difficult than the same determination for investments classified as current assets.

Nevertheless, if market value is significantly below cost and the decline is attributable to other than a temporary condition, a reduction to market value may be appropriate. It is not usually possible to isolate individual reasons for declines in market prices; however, some or all of the following circumstances may be indicative:

- The company whose securities have declined in value may be experiencing operating or financial difficulties, which may be evident by bankruptcy proceedings, reorganization proceedings, continuing losses, a qualification of the auditors' report for lack of liquidity or going concern uncertainties or suspension of trading because of adverse circumstances.
- The industry in which the company operates may be experiencing declines in demand for products.
- General economic or money market conditions.
- Short-term or daily market conditions.

In order to attempt to determine whether declines in market prices of long-term investments are other than temporary, available evidence with respect to each individual security should be considered. If it is then apparent that the decline results from severe operating problems of a particular company, it may be concluded that the cost of this investment is permanently impaired, the market price decline is not a temporary condition, and therefore the investment should be written down to market value. Conversely, if available evidence (including the length of time of the decline in market price) does not support a conclusion that the decline is either temporary or permanent, an uncertainty may exist which, if material, will ordinarily require disclosure in the notes to financial statements and a qualification of the auditors' report.

Declines in the market value of investments in bonds which are expected to be held to maturity are generally not recognized unless circumstances indicate that the carrying amount may not be recoverable.

Companies in certain industries use a non-classified balance sheet, that is, assets are not segregated into current or non-current categories and neither are liabilities. Determination of whether the lower of cost or market policy for short-term investments or the cost policy for long-term investments should be followed would be based on the appropriate classification of the investment if a classified balance sheet were used.

Current market prices are most frequently used to determine the market value of an investment; however, the "last sale" or "bid and ask" quotations may not be representative of the particular investment's market value. Additional investigation may be needed to determine if other factors must be considered, such as the quantities of the security which are traded and artificially inflated or deflated quotations caused by a tender offer or an acquisition announcement. Consideration must also be given to discounting the quoted market price if a large quantity of shares are held by the client.

All securities in the portfolio should be valued as of the balance sheet date unless valuation of a certain security as of a later date is justified by the circumstances. These might include:

- The decline in market price at the balance sheet date substantially recovers before the report letter date and such recovery is not due to a temporary condition. In such cases, it may be concluded that the decline at the balance sheet date was a temporary condition.
- The market price at the balance sheet date was artificial. The market price at some date prior to the report letter date may be deemed to more clearly reflect the value at the balance sheet date.
- Securities are sold prior to the report letter date at a price in excess of the market price at the balance sheet date but below cost. In such circumstances, the sales price may be indicative of the appropriate balance sheet valuation.
- In situations where market prices decline between the balance sheet date and the report letter date, the additional decline is ordinarily recognized if the securities have been sold during this period. If the securities have not been sold, the additional decline is usually not recognized in determining the amount of loss to be recorded unless the conditions causing the additional decline existed at the balance sheet date.

Justification for using a different valuation date should, of course, be well documented.

In the balance sheet, write-downs to market value which have been recorded may be shown as a valuation allowance or the amount may be deducted directly from the asset account. In the statement of earnings, write-downs of marketable securities are shown before tax effect as a separate line item above earnings before income taxes. The amount may also be combined with another appropriate expense caption. Generally, gains or losses from marketable securities do not meet the criteria for extraordinary treatment because similar events or transactions have occurred or may be expected to recur in the foreseeable future.

In subsequent accounting periods, an increase in the quoted market price of a security previously written down may be recognized as a gain to the extent of original cost in the statement of earnings, if the security was and, in the period of recovery, is properly classified as a current asset. This assumes that the market increase is not artificial or temporary and is realizable. If the security was and is properly classified as long-term, the gain is usually not recognized until disposition of the security has taken place.

20-20 Hindsight

Recent litigation involving auditors has made it painfully clear that uncertainties are easily identified and evaluated in subsequent years. For example, after a customer whose account receivable was evaluated as collectible at December 31, 1972 goes into bankruptcy in 1975, it is readily apparent that the client should have provided a full or partial reserve against the receivable at December 31, 1972. It is absolutely necessary that the auditor prepare written, understandable documentation of the procedures applied and the reasoning process followed in arriving at the conclusions related to uncertainties at the time the procedures are performed and the conclusions are formulated.

EDP
(Continued from page 15)

more frequent basis, so that the intervening processing period for which transactions must be saved can be kept to a minimum. This approach to reconstruction has the disadvantage that the dumping operation itself requires time and, of course, that the reconstruction operation can be time-consuming, since it requires a reexecution of all of the transactions occurring since the preceding dump. Where possible, it is desirable when using the dumping technique to incorporate in the dump operation additional processing benefits. Thus, while dumping records, an edit routine can be executed to perform edit and reasonableness checks on the logical fields within each record in order to determine, where possible, consistency within the records. In addition, inactive or logically deleted records can be recognized, so that file rearrangement and compaction can be obtained as a byproduct of the normal dumping procedure.

The third approach, which can be used to good advantage in those instances where a systems failure destroys only a few records rather than the entire data base, is an approach that can be referred to as an audit trail approach. Basically this technique keeps a record of all transactions that occur as well as the contents of each master record both before and after updating by a specific transaction. The audit trail log, or reconstruction log, can be recorded on any medium although the most efficient is some machine-readable medium that can be accessible to the recovery routine. By copying the contents of the data base master record before updating, the full text of the transaction, and then the contents of the data base record after updating, the reconstruction log makes it possible for the recovery routine to determine all transactions that were in the process of updating when a failure occurred. The records containing information regarding the contents of the data base records allow restoration of any records involved in the failure. Serious failures, in which the full file is destroyed, are still best handled by the latest file dump. Then the reconstruction log can be used to merge in the after copy of those master records that have been updated by transactions since the last dump.

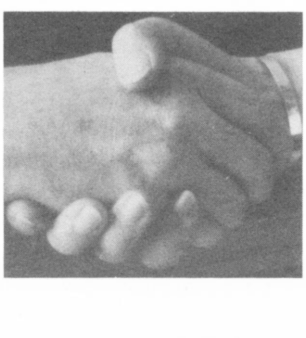
Whichever recovery procedures an installation decides upon, it is essential that those procedures be carefully planned ahead of time and just as carefully documented. This means that the installation must investigate very thoroughly all potential sources of systems failure and consciously attempt to provide for recovery from each individual type of potential failure. In addition, it is important that operating personnel be made completely familiar with the proposed recovery routines and be carefully trained in the implications of those activities. Recovery plans should be periodically reviewed in order to determine that they are as applicable as when first designed. As part of the evaluation of the processing system, the auditor verifies that the client has made adequate provision to protect the data base and to provide for recovery routines that will facilitate continued operations. This is particularly true in those instances where the operations literally depend upon the successful functioning of a real-time system.

Tax Forum
(Continued from page 25)

> 3. Consideration should also be given to amending the governing instruments to provide that the members may vote each year to determine if the assessments in excess of disbursements for the year (excluding the separate fund discussed above) should be refunded to the members or applied against the assessments for the future year. The Internal Revenue Service has ruled in Revenue Ruling 70-604 that if the above provisions are present the excess of receipts over disbursements for current maintenance may be excluded from taxable income.

Remedial legislation for homeowners' associations is being considered by the House Ways and Means Committee, but even if such legislation is enacted it may not be effective for prior years.

In conclusion, it appears that until homeowners' associations are given specific exempt status under the Internal Revenue Code, steps should be taken to avoid future taxation on the accumulation of funds and to minimize or eliminate potential deficiencies for prior years.



Editor's Notes

Support the ERA

The United Nations has proclaimed 1975 International Women's Year. And numerous organizations have proclaimed 1975 the year in which the Equal Rights Amendment will become the 27th Amendment to the United States Constitution.

Among the organizations supporting the ERA are our two sponsoring organizations: The American Woman's Society of Certified Public Accountants and the American Society of Women Accountants. Sally J. Self, CPA, and Pearl J. Mullvain, the president of AWSCPA and ASWA, respectively, are strong advocates of the ERA and have urged our members to work for its ratification in their states.

When North Dakota ratified the ERA early this year it became the 34th state to do so. Two states, Tennessee and Nebraska, which had earlier ratified the ERA have since rescinded their ratifications, an action of doubtful legality. Strictly speaking, only four more states are needed to make the 27th Amendment a reality; but to overcome the negative actions of Tennessee and Nebraska ratification by another six states would put all legal doubts to rest.

The sixteen states which have not yet ratified the ERA are: Alabama, Arizona, Arkansas, Florida, Georgia, Illinois, Indiana, Louisiana, Mississippi, Missouri, Nevada, North Carolina, Oklahoma, South Carolina, Utah, and Virginia.

If you live in one of these sixteen states which has not yet ratified the ERA, you owe it to yourself and to all women to work for its ratification. You can do this by working through the E.R.A. Coalition, an umbrella organization of more than 60 women's groups. Or you can circulate and sign a petition at your next ASWA Chapter meeting and mail copies of it to all your state representatives and senators.

In addition to — or instead of — these actions you can write to your state representatives and senators urging them to vote for the Equal Rights Amendment. You don't necessarily have to write a long letter; a postcard saying simply "Support the ERA" should be sufficient to let them know how you feel. And how much time and money does it take to send a few postcards?

And all of you, whether you live in one of the 34 states which have already ratified the ERA or in one of the 16 which have not yet done so, can send a check to one or more of the organizations which are working actively for ratification.

In our January 1974 issue Dr. Patrica C. Elliott, CPA, reported on "The Status of the ERA" in our Legal Developments Department (pp. 18-19). Her column summarized most of the arguments which have been advanced against the ERA and rebuts each of them. She also lists the most important benefits of the ERA. If you want to refresh your memory and be ready to win opponents to the ERA over to our side, then do read her column again.

And then don't just sit there and wait for your income tax refund. Do something for the ratification of the Equal Rights Amendment!

Personal Management
(Continued from page 22)

sometimes replete with grammatical and spelling errors.

Be discriminating in selecting to whom you send your resumé. Wrong exposure or over-exposure could cost you your job, if you are just "exploring the market". Beware of replying to "blind" ads, your letter and resumé could end up on your boss' desk, or on the desk of a friend with whom he or she frequently talks at professional meetings.

Using an Executive Search Firm

If you contemplate sending your resumé to an executive search firm, make sure that you clearly understand how the firm operates. Does the firm guard your professional anonymity andor contact you before submitting your resumé to a client? Determine how visible you are and how careful you must be. Choose your search firm accordingly. Does the firm keep you and your resumé on "active status" and are you being continually considered for openings?

Keep the search organization to whom you submit your resume appraised of changes in your status, i.e., added responsibilities, greater relocation flexibility, and any other change that might be relevant to the job you seek. Of course, you must always advise the search firm of a change in a telephone number and/or an address. An executive search firm's immediate response to a prospective employer can be very important, so make sure the firm you use can contact you quickly when the need arises.

In estimating the time it will require to locate a new position, allow a week for every $1,000 in salary. Keep in mind that this does not include the goal setting and evaluation period, nor the time required to prepare and produce your resumé.

Don't wait until you need a job to send your resumé to a search firm. If it has your updated resumé on file, it can contact you and keep you abreast of what is available. This keeps you informed of the job market, and it allows the search firm leeway in working for you. Remember that the right job might not present itself for twelve months or more.

Even in the current climate, companies are looking for qualified professional people. As an indication, during the last three weeks, two companies have approached us requesting help in locating financial women. Both of the openings carry salaries above $40,000. So despite all you read, good people are still being sought. Make sure they find you! !